



Vantage *point*

MARKET OUTLOOK: CAUTIOUS STRATEGY: DEFENSIVE STOCKS AND SECOND LINERS WITH GOOD GROWTH PROSPECTS

After 3 straight weeks of declines with the PSEi losing more than 9%, our stock market finally bounced back last week, gaining 1.3%. However, the PSEi is now having difficulty staying above the 7000-level as foreign selling continues practically unabated. Foreign selling last week still amounted to PhP 4 billion and the November tally so far is net foreign selling of PhP 13.4 billion.

The dollar also took center stage last week as Fed Chairman Janet Yellen said that it would be dangerous not to hike interest rates soon. This sent DXY, the dollar index, to a 13-year high. This has been detrimental to emerging market currencies and equities.

For instance, the Philippine peso is now very close to the crucial 50/\$ support level. With the currencies of its neighbors also depreciating due to the rampage of the US dollar, the peso's plunge was exacerbated. Historically though, the US dollar tends to peak when interest rates are finally raised and weakens shortly after.

Trump's victory in US elections is also causing a lot of concern in emerging markets. His protectionist policies will have significant ramifications on trade, manufacturing, remittances and BPOs - the last 2 being lynchpins of the Philippine economy.

With the sharp correction in the past weeks, the PSEi is now trading at 16.6x 2017 P/E, below the 17-22x P/E range we have been accustomed to in the past 6 years. Because of this, valuations have become reasonable. However, it remains to be seen if this is an opportunity or a sign that multiples are being re-rated to lower levels.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bigcharts.com

TRADING STRATEGY



After being sold off sharply, emerging markets staged a bounce last week. However, policy uncertainty combined with dollar strength calls for a defensive stance, which we have been maintaining for quite some time now. We have also been realigning the portfolio to increase exposure to non-index stocks.



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