



Vantage *point*

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

Last Wednesday, December 14, the US Federal Reserve finally raised interest rates - only the second time in more than 10 years. This brought US interest rates to 0.75%.

While this rate hike was widely expected by market participants, the interest rate trajectory was a surprise. Though consensus expectations were for 2 rate hikes next year, the dot plot indicated that we may see 3 rate hikes instead. Moreover, we may see another 3 each for 2018 and 2019, bringing US interest rates to 3% over the long term.

After Trump's victory, bond yields have risen substantially, with US 10-year yields doubling from the low. As for the US dollar, it may start consolidating after its blistering rally which brought it to resistance levels. However, the steeper interest rate trajectory may cause it to strengthen over the medium to long term. As a result, the peso is flirting dangerously with the crucial 50/\$ level. The resulting weakness in emerging market currencies will weigh on equity prices.

Last week, the US stopped a \$400M aid grant "due to concerns around the rule of law and civil liberties in the Philippines". This provoked the President, who once again unleashed anti-US rhetoric over the weekend. This can partially explain why, despite strong 3Q16 GDP growth figures, foreign selling continues practically unabated, with 17 out of the last 20 trading days seeing net foreign selling.

Thus, after experiencing our worst monthly performance in 3 years last month, December is still showing relatively dismal performance. In light of these, we maintain our defensive positioning as we keep a healthy cash level.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY

Though last week's US interest rate hike came as no surprise, the Fed indicated that rates will rise faster than expected. Over the medium to long term, this may lead to substantial weakness in the peso, which is detrimental to Philippine stocks, especially if the currency weakens versus its peers. Coupled with political noise which leads to uncertainty, we maintain our defensive positioning with a healthy cash level.

PhilEquity (+63 2) 689 8080 ask@philequity.net www.philequity.net

Disclaimer: The information contained herein is the property of Philequity Management Inc. and may not be copied or distributed without the prior consent of Philequity Management, Inc. The information and views expressed herein is not warranted to be accurate, complete or timely and may change without prior notice. Neither Philequity nor its content provider is responsible for any damages and losses arising from any use of this information. Past performance is not a guarantee of future results. Investments in mutual funds are not guaranteed by the Philippine Deposit Insurance Corporation. Investing in mutual funds involves risk and possible losses of principal. Consult a professional before investing. For inquiries, please contact Philequity Management, Inc.