



Vantage *point*

MARKET OUTLOOK: NEUTRAL
STRATEGY: SELECTIVE BUYING ON CONSUMER AND INFRASTRUCTURE STOCKS

After falling 20% from the highs last year, the PSEi has staged a blistering rally starting the day after Christmas until last Friday. Since December 27, the PSEi has gained 10.4% and is up nearly 6% for the year.

The past few months saw the PSEi underperform its peers significantly. At the same time, US equity markets have been making new highs and many other markets are close to their historical highs. Thus, it was only a matter of time before foreign investors start looking at emerging markets for bargains. With money now flowing back into EM, we should also see foreign inflows into the Philippines.

Thus, with foreign selling abating and reversing into foreign buying, we saw the stock market move up sharply. Since December 27, a little over PhP 2 billion flowed into Philippine stocks. Combined with local buying, our index was able to stage a dramatic recovery.

Moreover, the peso was able to stay below the crucial 50-level, due to both a pause in dollar strength and the staunch defense of the BSP. This served to calm financial markets and improve investor sentiment.

With less negative headlines distracting local and foreign investors, focus will now be on the country's macroeconomic fundamentals, as well as the execution of the government's economic agenda. Proper implementation of infra spending and the passage of the tax reform package will be significant catalysts for Philippine stocks and the peso.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With the dollar strength on pause and foreign outflows abating, the market was able to stage a dramatic rally. Though the market may need a correction or consolidation after this sharp upmove, we will use dips as opportunities to buy.