



Vantage *point*

MARKET OUTLOOK: CAUTIOUSLY POSITIVE
STRATEGY: SELECTIVE BUYING ON CONSUMER AND
INFRASTRUCTURE STOCKS

The prospect of rate hikes and optimism over potential tax cuts in the US propelled US equity indices higher last week. Despite the significant uncertainty on some Cabinet appointees and policies, investors are still giving Trump the benefit of the doubt as far as the economy is concerned.

In previous years, talk of higher interest rates would normally lead to a correction. However, after Yellen said that rates would be rising "sooner rather than later" and that it would be "dangerous not to raise rates", US equities moved higher. Though the market is just expecting 2 rate hikes, the Fed dot plot indicates 3 rate hikes this year. This difference in expectations may cause some volatility in equities and currencies towards the latter part of the year.

Though Yellen's statements may contribute to dollar strength, Trump has explicitly stated that the dollar is too strong. Thus, the currency is now caught in a tug o' war, hence the pause in its rally as of late.

Despite this, the peso broke the crucial 50 support level yesterday. This is something that bears watching as it will have significant ramifications on corporate earnings and equity flows. As things stand, earnings results are mixed and the stock market is experiencing moderate foreign selling, with the PSEi seeing net outflows so far this year.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



The PSEi continues to consolidate as earnings reports come in. The mixed nature of the earnings reports as well as the peso's move above 50 yesterday warrants a cautious stance.