



Vantage *point*

MARKET OUTLOOK: CAUTIOUSLY OPTIMISTIC
STRATEGY: SELECTIVE BUYING ON TOURISM, INFRA,
FINANCIAL AND POTENTIAL M&A PLAYS

Last week, the Philippines reported 1Q17 GDP growth of 6.4%, below analyst forecasts of 6.8% and NEDA Director General Pernia's expectation of 7%. This was due to a high base from election spending, slow rollout of infrastructure projects and softening of consumption growth.

This negative news also came during a time when the US saw its share of political controversy. In a memo released shortly after he was fired by Trump, ex-FBI director Comey revealed that Trump asked him to stop investigating former National Security adviser Michael Flynn. With many commenting that this may possibly be obstruction of justice, the prospect of impeachment increased.

This roiled US markets, causing the biggest 1-day drop for US equity indices since September 2016. However, US stocks have since recovered some of their losses.

Note also that despite all this negative news, the PSEi continues to trade above support of 7,700. Sharp dollar weakness recently has also helped EM stocks and currencies, including Philippine stocks and the peso. If the tax reform package is passed and infra spending is implemented quickly and smoothly, we expect economic growth to improve. This should be very positive for corporate earnings and stock prices. Thus, we use dips as opportunities to buy.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



Despite below forecast GDP growth and political uncertainty abroad, the PSEi continues to stay above support of 7,700. We continue to use dips as opportunities to increase exposure to stocks in our preferred sectors and those that beat earnings forecasts.