



Vantage *point*

MARKET OUTLOOK: CAUTIOUSLY OPTIMISTIC
STRATEGY: SELECTIVE BUYING ON PROPERTY AND
FINANCIAL SECTORS AND POTENTIAL M&A PLAYS

We have once again failed to decisively break the 8000 level despite touching it 24 times already this year. Political uncertainty in the US has weighed on stocks the world over. Thus investors have flocked to safer assets such as bonds.

On the domestic side, the current account and fiscal deficits have weighed on the Philippine peso, which is down 3.7% YTD already. BSP Governor Nestor Espenilla said the BSP will not tolerate speculative behavior and is prepared to intervene in the open market. DOF Secretary Sonny Dominguez also said that while he is "not uncomfortable" with the peso's weakness, the rate of change is a concern.

That said, the current account deficit is partly due to the imports of capital goods, which is part of the government's strategy of prioritizing more investment-led economic growth. Though there may be some negative effects in the short term, Dominguez expects that tax reform combined with heavy infra spending will allow our country to experience breakout economic growth.

Foreign investors are also optimistic that tax reform will benefit the country as we have seen 9 straight days of net foreign buying amounting to PhP 2.1 billion.

With earnings meeting our estimates and GDP growth a bit above forecasts, we remain optimistic in the Philippines' long term growth prospects when tax reform is passed in full. Thus, we will be using dips as opportunities to buy.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



Political and policy uncertainty in the US led to heightened volatility in stocks worldwide. However, hopes in tax reform and strong earnings growth of top index stocks continue to underpin our market. Thus, we will use dips as an opportunity to buy.