



Vantage *point*

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

After breaking its all-time high last September 14, the PSEi went on to make fresh record highs last week, peaking at 8,321. The PSEi had such a difficult time staying above 8,000, which makes last week's breakout very significant. Moreover, the PSEi has been consolidating for 2 1/2 years before this crucial breakout. Note that this new high came at a time when North Korea was escalating tensions in the Pacific and during the historically weak ghost month.

However, it wasn't only the stock market that strengthened, but the peso as well. Last week, our currency strengthened by 1% against the dollar. In addition to equity inflows, its recent strength was also fueled by JTI's PhP 12 billion partial payment for Mighty. At the end of this week, another PhP 65 billion in foreign inflows from EDC's recently concluded tender offer are coming in. This should further bolster the peso's strength.

Last week, the Senate passed its version of the tax reform bill. However, it is more complicated, includes provisions from later packages and will generate less revenues than the House version. We will be closely watching developments on this front. While tax reform's passage in full is a catalyst for the market, any dilution will be viewed negatively.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



After sharply rising since making a new record high, the PSEi has now started to correct. However, we are confident in the economy's growth prospects and the impending passage of tax reform, so we will be using dips as opportunities to buy.