



Vantage *point*

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

After reaching a new all-time high, it looks like 8,600 may be the new resistance of the PSEi. Last Friday, it succumbed to foreign selling at the close, with the market falling more than 100 points from its intraday high.

The correction now is primarily due to weakness in global markets. However, we note that some stocks have also reported weak earnings (ex. URC, also dragging down JGS).

Based on the earnings reports we have seen so far, it looks like most companies will be meeting our earnings forecasts. Unfortunately, some have significantly underperformed. Also in the spotlight now are the SMC, GSMI and PF because of the ongoing merger of all of SMC's consumer businesses into PF and the subsequent increase in SMC's stake in PF. This transaction bears watching as it may have significant ramifications for our stock market, such as large share placements and PF's inclusion in the PSEi. Given the large amount of shares that PF needs to sell to meet public float requirements, we may see a large influx of dollars into the market - a positive for the Philippine peso.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With global markets finally correcting, it looks like the PSEi will follow suit as well. With earnings season now in progress, we will be buying stocks that beat forecasts as they approach support levels while reducing exposure in those that fail to meet estimates.