



Vantage *point*

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

The past few weeks have proven to be very volatile for our stock market. After the volatility wrought by MSCI rebalancing, the PSEi fell victim to sharp rotation brought about by tax reform in the US. Flows moved from emerging markets to the US, from growth & momentum stocks to value stocks. Beneficiaries of US tax reform also rose sharply, to the detriment of other stocks.

Now, the market is steadying itself ahead of the imminent package of tax reform in the Philippines. After the Senate passed its version of the package, it looks like the bicameral committee is nearly ready with its unified version. Some government officials have said that the final version of tax reform may be ready for the President's signature as early as yesterday.

Thus, the final form of tax reform and how much net revenues it will generate will be crucial to sustaining the uptrend of the PSEi. If it generates too little revenues or includes taxes which are hard to collect, it may be a dampener for our stock market instead of a catalyst. However, if it leans very close to the DOF version, its passage may usher in the next leg of our bull market.

Fitch's upgrade of the Philippines' credit rating to BBB is a pleasant surprise. Despite the current account and fiscal deficit, Fitch gave our country a vote of confidence. This upgrade, combined with a suitable tax reform package, bodes well for the peso, as foreign flows into the stock market will cause it to strengthen. A break below resistance of 50 may also lead to further appreciation.

Though we have been restoring our index exposure after MSCI rebalancing, we still remain underweight sectors with significant headwinds. The most recent example is the telco sector, which may be under threat from a third player. There have been announcements that this third player will be China Telecom.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



After reducing index exposure prior to MSCI rebalancing, we have used dips to restore our exposure to blue chips. With the passage of tax reform in the Philippines imminent, everyone is now on their toes. The market's direction moving forward will be a function of how close the final package is to the DOF's original proposal.



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