



Vantage *point*

MARKET OUTLOOK: CAUTIOUS STRATEGY: OVERWEIGHT FINANCIAL SECTOR

Though volatility remains higher than usual, markets are much calmer than they were at the start of February. The Fed policy statement that came out last Friday was also quite encouraging. The Fed expects moderate wage increases and gradual tightening of monetary policy.

While these still point towards higher interest rates in the future, it also indicates that the Fed will be very careful in tightening monetary policy in order to avoid stifling growth or creating excessive volatility in the financial markets.

Unfortunately, the PSEi has been underperforming Asian markets recently as foreign funds continue to sell. In the past 21 trading days, 20 of these saw net foreign selling. Moreover, many blue chips have broken strong support levels, which indicates that our market may need more time before it recovers.

Also notable is how retail money seems uninterested in index stocks and is instead flowing towards speculative stocks, many of which have become the top traded Philippine stocks in the past 2 weeks. Combined with continuous net foreign selling, this is not a good sign for the market.

Another reason behind the PSEi's underperformance is the depreciating peso. Though it has since gone below the 52 level, it is down 3.7% YTD. For foreign funds which measure their returns in dollars, it means that they are losing money on Philippine stocks. With other Asian currencies strengthening against the dollar, the peso's relative weakness has become a deterrent for foreign funds thinking of buying Philippine stocks.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



Though global markets have recovered, we note that volatility remains elevated. With many risks in the horizon, we maintain a cautious stance and a healthy cash balance.



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