



Vantage *point*

MARKET OUTLOOK: CAUTIOUS
STRATEGY: DEFENSIVE STOCKS

Though we are far from a full blown trade war, fears of trade retaliation have been increasing each passing day. After Trump announced \$60 billion worth of tariffs against China, China responded with an initial round of retaliatory tariffs on 128 US products, including pork, wine, steel and fruits.

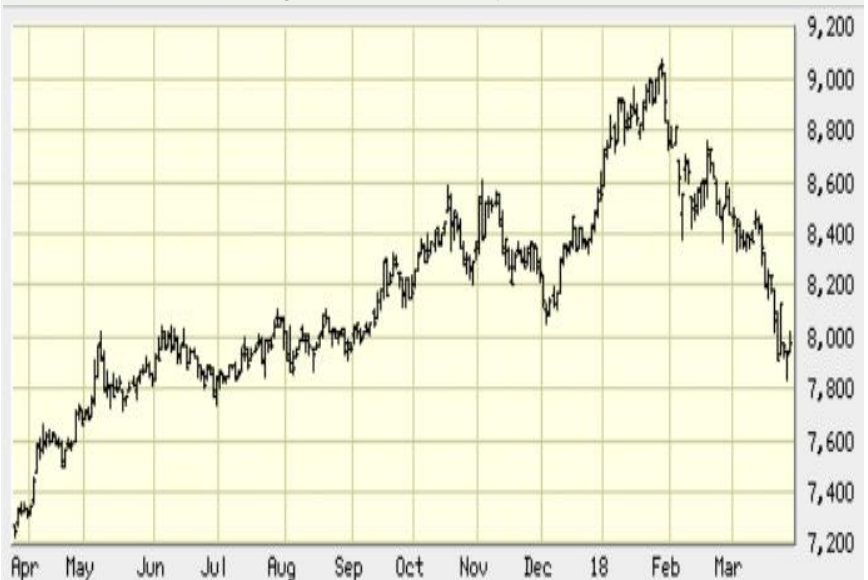
Previously thought to be just saber-rattling, Trump has steadily put weight beyond his words, saying that "there is more to come" as far as tariffs against China are concerned.

The main concern over a potential trade war is its detrimental effect on global economic growth - the linchpin of this bull market. Though fundamentals have yet to deteriorate, market valuations have contracted significantly in the past 2 weeks. At current levels, the PSEi is trading at 17.3x 2018 P/E. Note that the PSEi has traded between 17x and 22x P/E since 2010.

Moreover, foreign flows continue unabated due to bearishness in global equities. The Philippine peso's relative weakness versus the US dollar and other currencies has also weighed on equity returns as foreign funds book their returns in dollar terms. Significant foreign selling from the recent FTSE rebalancing as well as Mitsubishi's PhP 8 billion sale of part of its AC stake have exacerbated the foreign outflows. So far, net foreign selling for the year amounts to PhP 30 billion as of March 23.

In addition, crucial support of 8,000 was broken - a bearish sign for followers of technical analysis. Fortunately, the breakdown is not yet decisive.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With Trump's rhetoric escalating with China being targetted specifically, China has announced its own set of retaliatory measures. This resulted in a bloodbath for global markets once again. However, with the US hopeful that negotiations will be fruitful, we have started putting our cash to work.



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