



Vantage *point*

MARKET OUTLOOK: CAUTIOUS
STRATEGY: DEFENSIVE STOCKS

Last week, MSCI announced the entry of China A-shares into their emerging markets index. This resulted in a weight reduction for all EM countries, including a 2% weight reduction for Philippine stocks. With the exception of SMPH, the weighting of every Philippine stock was reduced. This will explain the spike in SMPH's stock price.

Just over the weekend, the US Treasury Secretary Steven Mnuchin announced that the trade war is "on hold", with both sides setting up a framework for addressing trade imbalances in the future. The US is also asking China to take measures to reduce the trade gap, such as buying more energy and agricultural products from the US and allowing the entry of more US products into China (ex. cars).

Fears of a trade war have put a lid on stock prices in the past months, so de-escalation should allow equities to recover.

Unfortunately, on the domestic front, many companies reported lackluster 1Q18 earnings, especially the banks and conglomerates. Telcos seem to be recovering while property companies have benefitted from the influx of mainland Chinese. On balance, 1Q18 earnings growth is mostly below forecast.

Thus, we are maintaining a relatively high cash level and have only been buying on a selective basis (ex. SMPH).

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With MSCI announcing a reduction in PSEi's weight in emerging markets because of the entry of China A-shares, foreign selling has resumed. We have been selectively buying certain stocks that will be insulated from this.



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