



Vantage *point*

**MARKET OUTLOOK: CAUTIOUS
STRATEGY: DEFENSIVE STOCKS**

Last week, Trump announced that he will soon implement \$50 billion worth of tariffs against China. The day after, China retaliated with tariffs of "the same scale and the same strength". They also said that "all economic and trade achievements previously reached by both parties will no longer be valid". This marks a significant escalation in the potential trade war.

If all of these push through, it will have a significant impact on global economic growth. This may also overshadow the strong economic growth of the US, which is expected to clock in close to 4% in the 2nd quarter.

Even worse, emerging markets may become the unintended victims in this trade war between the US and China. This partly explains why the Philippine stock market has fallen through support of 7,500. Foreign selling has also come back with a vengeance, already amounting to PhP 58 billion for 2018.

Thus, the Monetary Board's policy meeting on Wednesday becomes all the more crucial. One rate hike then may not be enough to stave off the deterioration in sentiment which has caused both the Philippine peso and stock market to break down. Strong language and decisive action is necessary to restore confidence in Philippine assets.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With a looming full scale trade war, global markets have sold off. We expect emerging markets, including the Philippines, to be victims of collateral damage. Thus, we are holding off any buying.



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