



# Vantage *point*

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

With the US now besieged by many countries on the trade front, Trump shows no sign of backing down and has chosen to escalate his anti-China and anti-Europe tariffs. Until such time that all sides ratchet down their rhetoric, we expect trade war concerns to weigh on the market.

Note that emerging markets suffered the brunt of concerns over the trade war, with portfolio managers scampering away as many investment houses downgraded their EM targets. Flight to quality has caused money to flow into the US, which led to further weakness in EM currencies and, consequently, EM stock markets.

We also note that the market had priced in the BSP's rate hike, hence the tepid response after. The peso remains stubbornly weak with the market losing 6.2% last week and was down as much as 23.7% from the high. Note that this year, the market has fallen through both round number supports of 8000 and 7000. We have also seen 26 straight days of net foreign selling. As of June 22, net foreign selling amounts to more than PhP63 billion, wiping out foreign flows in the past 2 years. We also note that foreign selling has escalated, with the past 2 weeks seeing average daily foreign selling in excess of a billion, double the usual daily foreign outflows we have been experiencing this year.

Until such point that foreign selling abates, it will be very hard for our stock market to stage a lasting rebound or form a strong support.

Philippine Stock Exchange Index (PSEi) – 1 year chart



## TRADING STRATEGY



With the looming trade war escalating by the day, Asian markets sold off sharply last week. However, with the PSEi firmly in oversold territory, a bounce was bound to happen. However, any escalation of the trade war may cause the rally to be short-lived. Thus, we remain on the sidelines as we monitor developments locally and globally.

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