



Vantage *point*

MARKET OUTLOOK: CAUTIOUS
STRATEGY: DEFENSIVE STOCKS

After being throttled by concerns over a global trade war, high inflation and a weakening peso, the PSEi has finally bounced from the 6900-7000 support level. We also note that foreign selling has finally slowed down last week, giving our market a welcome respite.

However, the strength and duration of this bounce will be contingent on developments on the trade front, June inflation that comes out on Thursday, the movement of the Philippine peso, and the resulting net foreign flows. We note that emerging markets remain weak and that the uncertainties which hounded the Philippine stock market are still present.

At this point, PhP 65 billion has flowed out of Philippine stocks, which according to our data is the single biggest annual foreign outflow on record. This is especially alarming considering that we are only halfway through the year. This is why a pause in foreign selling easily allows for a bounce in stock prices. However, unless foreign selling actually stops, it will be hard for our stock market to recover significantly.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With foreign investors going risk-off, money still continues to flow toward the US. However, we note a slowdown in foreign selling last week. Coupled with oversold conditions, this allowed stocks to bounce. We selectively added some equity exposure last week.