Issue Date: October 16, 2018

Vantage point

MARKET OUTLOOK: CAUTIOUS
STRATEGY: DEFENSIVE STOCKS

After suffering from a record streak of foreign selling, the PSEi plunged last week as US equities dragged down stocks globally. In our last report, we already flagged the risk of rising interest rates as a potential trigger for a correction. However, the ensuing correction turned out to be sharper than the market expected.

With bond yields spiking last week, US equities shed more than 5% last week, with many index heavyweights losing more than 10% in just 3 days. This comes as the IMF downgraded growth forecasts for 2018 and 2019 due to concerns over the impact of the US-China trade war.

Further complicating matters is the disappearance of Washington Post writer Jamal Khashoggi. Not seen since entering Saudi Arabia's consulate in Turkey, the US believes that it is likely that he has been murdered. The White House has already indicated that if the Saudis are involved and if Khashoggi was in any way harmed, then stern action is forthcoming. This should be a dampener for equities and may lead to higher oil prices if Saudi oil sales are hampered by sanctions.

This is another factor that may lead to higher oil prices, which are already exerting upward pressure on the country's inflation. The economic team has already recommended suspending the scheduled 2019 increase in oil excise taxes in an attempt to put inflation under control. While this may serve to reduce inflation, the government will be foregoing PhP 35-40B in incremental revenues next year. This may cause the fiscal deficit to widen, putting further pressure on the already weak peso.

Philippine Stock Exchange Index (PSEi) – 1 year chart

TRADING STRATEGY

The sharp drop in US stock markets dragged down the rest of the world. Though US bond yields have stopped rising, there are concerns that global growth may slow down in the coming years. We remain cautious as we expect volatility to remain heightened in the near term.

PhilEquity

t +632 689 8080 e ask@philequity.net w www.philequity.net