



Vantage *point*

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

On the global front, US midterm elections turned out as expected, with Republicans keeping control of the Senate but Democrats gaining majority in Congress. This may put a check on Trump and reduce the likelihood of further escalation of the US-China trade war. While US markets cheered the results the day after, global equities pulled back as concerns over high interest rates and slowing growth took centerstage.

Domestically, inflation number released last week indicate that food inflation may have peaked despite October's headline figure being a tad above forecast. 3Q18 GDP was a bit below forecast at 6.1%. What is notable is the marked slowdown in domestic consumption. Previously ranging between 6-7%, 3Q18 consumption growth was just 5.2%. Household spending should be closely monitored as further deterioration will be a significant drag to the economy.

Bond yields have also risen significantly in the past month - a potential drag to global economic growth and corporate earnings. Here in the Philippines, yields have risen by about 3% in the past 2 months. At these levels, it might be worthwhile to look at increasing exposure to fixed income.

As for corporate earnings, it has been mixed. The consumer and banking sectors continue to languish, while property companies have so far reported good growth figures.

Offsetting the negative news is the recent appreciation of the peso despite dollar strength and weakness in ASEAN currencies. Now at a 6-month high against the dollar, a break below 52.50 may indicate a retest of the 51.50 level. This will be bullish for all Philippine assets.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



Though food inflation showed signs of peaking, domestic consumption slowed significantly. Corporate earnings have also been mixed, but this was offset by the peso's strong performance. We continue to remain defensive.



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