



Vantage *point*

MARKET OUTLOOK: NEUTRAL
STRATEGY: DEFENSIVE STOCKS

With last week's rate hike, the BSP has raised interest rates by a total of 1.75%. This lent strength to the Philippine peso, which has been appreciating despite weakness in other emerging market currencies. This helped put a floor on the Philippine stock market which retested its low of ~6800 last week.

The upcoming G20 meeting also bolstered hopes that a trade agreement between US and China may come soon. There have been positive news regarding this, but some White House officials made statements to the effect that investors should temper their expectations because nothing is certain. That said, we note that China's stock market seems to have found a floor recently.

With China no longer dropping, it helps emerging markets find their footing, including the Philippines. Combined with the peso's strength, our stock market has performed strongly in the past week, with the PSEi up 5.6% from its intraday low of 6820 last week. We note that emerging market funds saw large inflows last week, amounting to \$3.9 billion. This may signal a move out of the US and into emerging markets.

The sharp drop in oil prices will also have a significant impact on our inflation figures moving forward. Down more than 25% from its high this year, this is a big help in government's effort to contain inflation.

Unfortunately, we note that 3Q18 earnings are unexciting. Despite some stocks beating forecasts, earnings growth under our coverage is still in single digits. This will have an effect on valuation and target prices moving forward.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY

The fresh rate hike of the BSP sent both the peso and stock market higher. News of a potential trade deal between the US and China also helped lift markets globally, especially emerging markets. However, corporate earnings growth remains in single figures. With the peso stabilizing and flows coming back to emerging markets from the US, we change our stance to neutral. However, remain cognizant of the binary outcome of the US-China trade war, which remains in flux.



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