



Vantage Point

MARKET OUTLOOK: NEUTRAL

STRATEGY: DEFENSIVE STOCKS

With the peso appreciating 4% in the past 6 weeks, foreign selling has started to taper off. In fact, the PSEi is already seeing net foreign buying days here and there. This helped the PSEi bounce 600 points from its lows, which also came at a time when trading volume is 30% below the average.

Philippine assets got 2 blessings because at the same time the peso was strengthening, crude oil prices fell by 35%. This will have a significant impact of inflation. With food inflation peaking in October, the sharp drop in oil should further rein in consumer prices going into yearend. This should be bullish for sentiment.

Unfortunately, corporate earnings continue to disappoint, with PSEi earnings growth just at 5.3% for 9M18. Unless earnings growth goes back to double digits next year, it will be hard for the PSEi to return to 20x P/E.

Regarding the US-China trade war, all eyes are now on the G20 because of the meeting between Trump and Xi. This may lead to either positive or negative statements regarding trade, which in turn will drive markets. While Trump's tweets indicate he wants a deal to happen, recent news show that the US still continues to exert pressure on China. For instance, they asked US corporates and other countries to stop using Huawei on grounds of potential security breaches.

We also note that T-bill and certain bond auctions were swamped, indicating that investors are starting to tilt their portfolios towards fixed income. However, we note BSP Deputy Governor Diwa Gunigundo's statement as he said that the "market is expecting that interest rates have peaked". This may stem the outflow from equities towards fixed income.

Another thing we have to watch is the Fed monetary policy statement in December. While they are widely expected to raise rates, there is a possibility that their statement may be dovish as economic growth is softening. If so, then we may see one less rate hike next year. This should be a positive for growth concerns and bullish for equities, at least in the short term.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY

A pause in foreign selling, the recent strength of the peso and the sharp drop in oil prices offset concerns over weak corporate earnings. With markets now awaiting the G20 because of the Trump-Xi meeting, we remain on hold.