



Vantage *point*

MARKET OUTLOOK: CAUTIOUS
STRATEGY: DEFENSIVE STOCKS

Hopes for a resolution to the US-China trade war on the back of a 90-day truce were doused with the arrest of Huawei's CFO. China has since summoned the concerned ambassadors, calling her arrest "vile in nature... that will have grave consequences." This surprised traders as this may have a significant negative effect on the outcome of trade negotiations.

On top of this, concerns over global growth took centerstage as the US yield curve started to invert. Last week, the US 2-year yield exceeded the 5-year yield. Inversion is usually a leading indicator for recessions. Along with the effects of the trade war, the likelihood of a significant slowdown in global growth is increasing. These offset the positive sentiment coming from Fed Chairman Powell's dovish statement on interest rates. Fed fund futures indicate that there is a 67% chance of a hike this year and a 31% chance of another hike next year.

Domestically, it looks like inflation has finally been contained as food prices have started to fall. The peso has also been relatively strong in the past 2 months. Taken together, these factors have helped our market rise as much as 12% from its recent lows. However, with US stock markets falling 6% in the past 3 trading days and dragging down Asia with it, the PSEi may likely join them in this corrective wave.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



The arrest of Huawei's CFO last week have cast doubts on the success of US-China trade negotiations. Combined with growth concerns over the partial inversion of the yield curve as well as the PSEi's recovery to the 7700 level, this high degree of uncertainty merits a cautious stance.



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