



Vantage *point*

MARKET OUTLOOK: CAUTIOUS
STRATEGY: PROPERTY AND SELECT CONSUMER
STOCKS

After hitting all-time highs week, US markets are likely to fall sharply at the start of the week as Trump tweeted that he is set to raise tariffs on Chinese products by Friday. In his tweet, he said that 10% tariffs on \$200 billion worth of Chinese products will be raised to 25%, with an additional \$325 billion of Chinese products to be taxed at 25% shortly after.

This surprise development does not bode well for global economic growth forecasts, corporate earnings and stock prices. With a trade deal expected to have been signed this week, Trump's tweet came completely from left field. Markets have been pricing in a resolution to the US-China trade war, hence the sharp drop in equity indices yesterday. All Asian indices closed in the red, with the Shenzhen Composite the worst off at -7%.

This news overshadowed S&P's credit rating upgrade for the Philippines. At BBB+, we are 2 notches above the coveted investment grade credit rating and our highest credit rating ever. This fueled our rally last week to the 8000 level. Unfortunately, this may come undone with the potential scuttling of the US-China trade deal.

A no trade deal scenario will be a disaster for markets. Combined with MSCI rebalancing at the end of the month, we believe that it is better to err to the side of caution.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



A surprise tweet from Trump threatening to raise tariffs on China and walk away from a trade deal overshadowed our credit rating upgrade. We remain cautious amidst this unexpected development on trade talks.



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