Issue Date: June 4, 2019

Vantage point

MARKET OUTLOOK: CAUTIOUS
STRATEGY: OVERWEIGHT PROPERTY AND BANKING SECTORS

Over the weekend, China showed no signs of backing down as it started implementing its retaliatory tariffs against the US. It also released a document blaming the US' "lack of sincerity" for the breakdown in talks. China took part in the escalation by investigating Fedex, reducing agricultural imports from the US and cutting tourist visits. There are also rumors that rare earth exports may be used as a retaliatory tool.

Global growth is starting to show more signs of slowing down, as China's PMI was below forecast while Eurozone growth continues to be tepid. According to one research firm, we may see a global recession 3 quarters from now if the trade war continues to escalate. This will lead to lower equity valuations moving forward.

Philippine Stock Exchange Index (PSEi) – 1 year chart

Despite all these, the PSEi has outperformed. It is now up 8% YTD and is the best performing stock market in ASEAN. It has also pierced the strong 8000 resistance level yesterday. Note that this 5%, 2-week rally occurred during MSCI rebalancing. This can be traced to the dovishness of the BSP and their clear message that stimulating growth is a top priority. As BSP Governor Benjamin Diokno said, "I can promise more rate cuts." This sent Philippine stocks higher, especially the property sector which benefits from low interest rates.

While this rally is a pleasant surprise, we are reluctant to buy at these levels. That said, we increased exposure in the past week for our preferred stocks close to support levels. With the trade war escalating, we still maintain a cautious stance and will be buyers on dips.

TRADING STRATEGY

Despite weakness in global stocks due to the escalation of the trade war and MSCI rebalancing last week, the PSEi still gained 2.9% last week. This can be attributed to the dovishness of the BSP. We bought on dips, but trade war concerns makes us reluctant to chase rallies.

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