



Vantage

**MARKET OUTLOOK: CAUTIOUS
STRATEGY: OVERWEIGHT SELECT PROPERTY AND
BANKING STOCKS**

point

Last week proved to be yet another topsy-turvy week for markets. With markets initially correcting because of US threats to impose tariffs on Mexico over illegal immigration, both sides took a step back from the brink. Over the weekend, both countries were able to iron out a deal that suspends the imposition of 5% escalating tariffs on Mexican products headed to the US.

The other major event was the very weak US nonfarm payrolls data, which missed by 100,000. Although this is technically bad news, it increases the chances of a Fed rate cut within the year. In fact, markets are now pricing in 2 rate cuts, with the first one coming as early as July. Fed Chairman Jerome Powell's recent statements add credence to this, as he said the Fed "will act as appropriate to sustain the expansion."

Central bank dovishness globally and domestically has served to boost our stock market, which is trying to break the crucial 8000 level. Despite foreign selling, our market has closed green for three straight weeks already. Promises of more rate cuts from the BSP have not led to sharp peso depreciation as well.

While this is a welcome rally, the specter of an escalation of the trade war still hovers over markets. Trump said he will decide on tariffs for the rest of China's \$300 billion worth of exports to the US after the G-20 meeting on June 28. This will likely mark the next major development in the trade war and the stock market's direction as well.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With the US reporting below forecast jobs data, the odds of a Fed rate cut jumped. Powell's statements also lent bullishness to the markets, along with the suspension of potential US tariffs on Mexico. However, despite the recent rally, the global macro environment still remains uncertain, so we have stopped increasing equity exposure.



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