Vantage *point*

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

Volatility continues to hound markets as 2 major factor are pulling stock prices in different directions. Putting a cap on equity prices are trade war concerns and weakening growth data across different countries. On the other hand, central banks have responded to weakening global growth by either cutting interest rates or putting a pause on tightening. While it remains to be seen if central banks can avert a global slowdown, their dovishness is keeping stock markets afloat.

Thus, there are 2 major events to watch this June. First is the June 20 Fed meeting. While a rate cut this week is unlikely, investors will be waiting for signals regarding the timing of cuts. So far, markets are pricing in 2 cuts, one in July and another in December.

Second is the G20 meeting in Japan at the end of the month. Trump said that if President Xi does not show up, it would mean that 25% tariffs on the remaining $300 million worth of Chinese imports would automatically go into effect. With the direction of the trade war likely determined during the G20, a decisive move in equities is possible.

Domestically, while the prospect of more rate cuts is positive for growth, it should have led to a weaker peso. Fortunately, with the US set to cut rates as well, the interest differential will still remain wide enough. In addition, growth concerns have caused oil prices to drop nearly 20% over a month - a positive for the Philippines. Finally, with domestic consumption accounting for bulk of our GDP, institutions have viewed the Philippines to be one of the least vulnerable to a protracted trade war. This has led to the recent outperformance of Philippine bonds, stocks and the peso.

Philippine Stock Exchange Index (PSEi) – 1 year chart

TRADING STRATEGY

Prospects of rate cuts here and in the US continue to keep stock prices locked in a consolidation. At the same time, trade war concerns and deteriorating global economic growth keeps investor bullishness in check. We remain on hold as we await further developments on the trade war.

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