Issue Date: July 22, 2019

Vantage point

MARKET OUTLOOK: NEUTRAL
STRATEGY: PROPERTY AND BANKING STOCKS

Last week proved to be a confusing one for Fed watchers. In a speech last Thursday, New York Fed President John Williams said that the Fed should "take swift action when faced with adverse economic conditions." Taken to mean that an aggressive rate cut is on the table, this caused Fed watchers to predict that the Fed will be cutting by 50 bps at the end of July, instead of 25 bps.

This statement from Williams sent the dollar lower and stocks higher as investors welcomed more rate cuts. On Friday, however, a spokesman for the New York Fed clarified that Williams was only making an "academic argument" and not advocating for a bigger rate cut during the FOMC meeting on July 30-31. Criticism from economists and analysts over this flip flop accompanied a correction for US equities last Friday.

Positive developments on the trade front may be a surprise catalyst for markets. With investors paying more attention now to the Fed than to trade talks, an announcement scheduling face-to-face talks between the US and China may boost sentiment for equities.

With a July rate cut practically a certainty, the US dollar has remained rangebound. This benefitted the peso, which is maintaining its strength and trading at the 51 level. The PSEi also saw 6 straight days of net foreign inflows. However, this is mostly concentrated in BPI. We note that the banking sector has been outperforming this month ahead of the last tranche of RRR cuts. After rising as much as 5% for the month of July, the PSEi is now taking a breather as it awaits Duterte's SONA, the FOMC meeting and corporate earnings announcements.

Philippine Stock Exchange Index (PSEi) – 1 year chart

TRADING STRATEGY

After strong rallies here and abroad, markets are taking a breather as they await the Fed policy meeting on July 30-31. We expect the US to cut rates then, which should be beneficial for emerging markets, including the Philippines. Since we expect markets to remain volatile, we will be increasing exposure on dips.

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