Issue Date: July 30, 2019

Vantage point

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

The Fed is widely expected to cut interest rates this week. This is the first time that the Fed will cut rates in a decade and is supposed to be a pre-emptive move against the negative impact of the US-China trade war. 2Q19 US GDP growth came in better than expected last Friday but was clearly weighed by the trade war. Meanwhile, inflation continues to undershoot the 2% target, thus giving the Fed more reason to cut rates. Expectations of a rate cut have pushed the S&P 500 and Nasdaq to fresh record highs last week.

Expectations of a Fed rate cut have buoyed the strength of the peso which is hovering around the 51 level, notwithstanding the policy rate cut and RRR reduction implemented by the BSP. Meanwhile, the PSEi is up 9.7% and is currently consolidating at the 8,200 level. Further cuts on the BSP's policy rate and reserve requirements for banks may provide stimulus to economic growth and may perk up market sentiment.

Philippine Stock Exchange Index (PSEi) – 1 year chart

TRADING STRATEGY

We expect the Fed to cut rates this week and this should be beneficial for emerging markets, including the Philippines. This should give the BSP enough leeway to cut its policy rate without causing the peso to weaken. In this light, we continue to buy on dips, focusing on select property and banking stocks which post strong earnings growth and may benefit from central bank easing.

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