

Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF



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MARKET OUTLOOK: CAUTIOUS

STRATEGY: OVERWEIGHT SELECT PROPERTY AND BANKING STOCKS

TECHNICALS: SUPPORT AT 7500 FOLLOWED BY 7200, RESISTANCE AT 8200

Volatility continues to be the norm as stocks swing between big gains and sharp losses. Tweets from Trump regarding the US-China trade war and historic moves in the bond market have put investors in a dizzying rollercoaster ride.

From tweeting that 10% tariffs on the rest of China's imports are on the way, Trump turned conciliatory after the Dow Jones index dropped a whopping 800 points. Not only did he offer to meet personally with President Xi Jinping, but he also delayed the implementation of the new 10% tariffs on some goods. This announcement of moving implementation to December 15 sent markets higher.

At the same time, bond markets are pricing in a sharper and more imminent slowdown. Not only did the US yield curve fully invert, but the US 30-year treasury hit an all-time low of 1.96%. This shows that expectations of a slowdown are increasing as the trade war drags on. Moreover, Fed fund futures are showing that investors are expecting 2 more rate cuts from the Fed this year.

Domestically, news of China cracking down on POGOs rattled property stocks as their main growth driver may vanish. Note that property prices and lease rates in areas catering to POGOs, such as Pasay and Makati, rose sharply because of their demand. Recently, government is proposing that POGOs be relocated to self-contained hubs. This will not only reduce demand in certain areas, but also lead to a flood of supply in the secondary market. This will have an impact not only on rental yields, but project launches as well. As a result, property stocks with significant exposure to POGOs were hammered.

Investing in this environment has become very difficult because of the unpredictability of news flow coming out of the US and China. This makes the market prone to sharp moves that may not be reflective of fundamentals. Thus, we are maintaining a relatively high cash level and concentrating on stocks with solid fundamentals and which beat earnings forecasts.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With the US yield curve fully inverting as bond yields dropped, stock markets went on a rollercoaster ride. In this volatile environment where daily news flow is unpredictable, we are maintaining a cautious stance.