

Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF



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MARKET OUTLOOK: CAUTIOUS

STRATEGY: BANKING STOCKS

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

The nervous wait for investors is over as the US and China finally reached a Phase One trade deal. Despite a slew of bad news heading into negotiations, such as the blacklisting of 28 Chinese surveillance firms over human rights violations against the Uighurs and potential capital controls, it looks like rationality has prevailed for now.

With last Friday's truce marking the first significant de-escalation of the US-China trade war, Trump touted their agreement as a "very substantial phase on deal." To be written over the next 3 weeks, the US said it will address intellectual property and financial services concerns, along with purchases of \$40-50 billion worth of agricultural products by China. In exchange, tariff increases set for October 15 will not be implemented.

This should lead to lower market volatility as investors have been buffeted by conflicting news in the past 2 weeks, which sent markets on a rollercoaster ride. However, there is still a long road ahead and as previous events have shown us, anything can happen in the next 3 weeks. So while markets will be able to stage a recovery because the outcome was not a disaster, we are in for a waiting game yet again.

In fact, China's reaction to the Phase One trade deal was less sanguine. China's official statement didn't refer to the outcome of the Friday meeting as a deal. The Commerce Ministry merely said that "the two sides have made substantial progress" in a number of areas and "agreed to work together in the direction of a final agreement."

On the currency front, we note that the dollar's strength took a pause. This should benefit the peso which has appreciated significantly as of late. Unfortunately, this has not benefitted the stock market which continues to trade below the 8000 level as it suffers from foreign outflows.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With the US and China moving in the right direction with a Phase One trade deal, markets can finally heave a sigh of relief. However, there is still a long road ahead for a final deal. Though uncertainty remains, we will slowly nibble in the market as rationality has prevailed.