

Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF PHILEQUITY MANAGEMENT, INC.

MARKET OUTLOOK: NEUTRAL

STRATEGY: OVERWEIGHT SELECT BANKING STOCKS

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

Despite the Phase One trade deal being delayed by a month, Chief Economic Adviser Larry Kudlow said that the deal is down to "short strokes". This reignited bullishness in US equities that touched a record high yet again last Friday.

However, we note that while the strength in US stocks lifted global markets, some markets are lagging behind, such as HK, Malaysia and the Philippines. In the Philippines case, we note that the listlessness of stocks is a sharp contrast to the Philippine peso's appreciation. Since hitting a low of 54.68 last year, the peso is now settling between 50.50 and 51.

This can be attributed to weak earnings of certain bellwether companies in the index, such as ALI and JFC. On a sectoral basis, banks are the sole bright spot, with nearly all of them posting high earnings growth. We note that consumer stock and property stocks are showing signs of slowing earnings growth, utilities are mixed, while telco earnings have bottomed and started rebounding.

Moreover, we note that from May 2019 to present, net foreign outflows amount to PhP 37 billion. Clearly, flows are going to bonds and not to stocks, hence the weakness in stocks despite peso strength. At the same time, MSCI rebalancing outflows are ongoing until November 27.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



US equities continued their slow trek to another record high as White House officials signaled that the Phase One trade deal is down to "short strokes". However, we note that strength is concentrated in the US, with other markets lagging, including the Philippines. We are taking this time to reallocate the portfolio based on earnings results.