

Vantage Point

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

MARKET OUTLOOK: NEUTRAL

SECTORS: OVERWEIGHT SELECT BANKING AND PROPERTY STOCKS

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

More positive news came our way as Trump tweeted that he "Had a very good talk with President Xi of China concerning our giant Trade Deal. China has already started large scale purchases of agricultural product & more. Formal signing being arranged." This sent the S&P 500 to a new record high. Now up 28.5% YTD, the S&P 500 is on track for its best annual performance since 2013. However, we note that ASEAN markets, including the Philippines, are underperforming their North Asian and developed market peers.

On the local front, a softer stance from the government regarding the contracts of water concessionaires caused water-related stocks to bounce back sharply. DOF Sec. Dominguez said that they are only after a review and not an abrogation of contracts. For his part, DOJ Sec. Guevarra said that they are not thinking of replacing the water concessionaires. Note that concerns over regulatory risk dragged down not only water stocks, but dampened broad market sentiment as well. If the government does reach a settlement with Manila Water and Maynilad, it should help the stock market as a whole rebound. Investors will now be waiting for President Duterte's statement on the matter, which is reported to be on January 6.

In an interview with ANC last week, BSP Gov Diokno, he said that "the macroeconomic planners are saying the peso will be between 51 to 54, so that's the range... Right now it's fair value, determined by supply and demand." Peso strength has helped give a floor to stock prices, so if the currency weakness significantly next year, it does not bode well for equities.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



US stocks continue to make new highs as positive news on the trade deal boosted the likelihood of signing in January. However, we note that ASEAN markets, including the Philippines, continue to underperform their developed market and North Asian peers. We are using this as an opportunity to buy stocks which we expect to beat earnings forecasts next year.