

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTORS: BANKING STOCKS, SELECT PROPERTY STOCKS

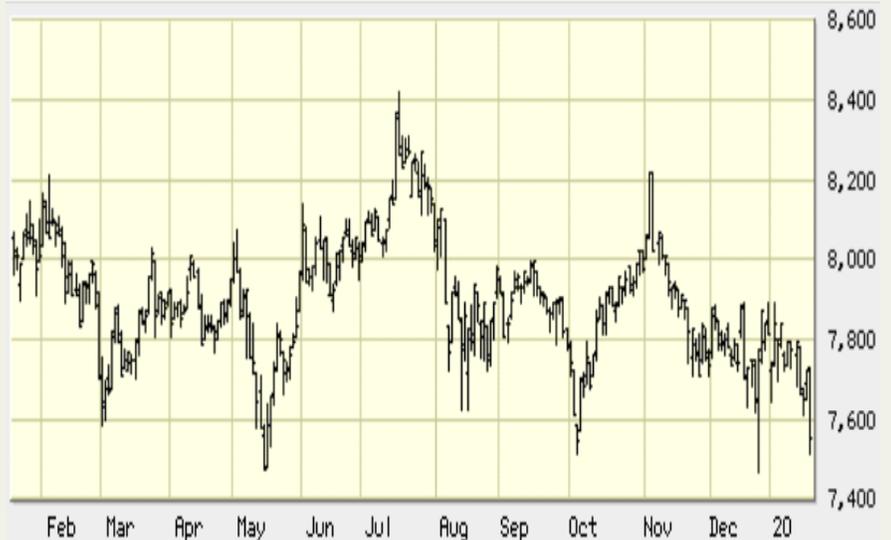
TECHNICALS: SUPPORT AT 7500 FOLLOWED BY 7200, RESISTANCE AT 8200

The ongoing 2-year trade war saga has finally started to look much brighter with the signing of the Phase One trade deal. Though there is only a partial rollback of tariffs, it marks the first significant de-escalation of the trade war. Along with the US removing China's currency manipulator tag, this provides a significant boost to sentiment. Even though Trump's much-touted agricultural sales to China were lower than expected, this development still sent global markets higher. In fact, US stocks continued to notch fresh all-time highs.

Unfortunately, the Philippines did not participate in this global equity rally. With Taal volcano rumbling last week, market participants took cover not only from the ashfall but from its potential impact on listed companies. Compounding the woes of Philippine stocks is the increasing regulatory risk which has spread to other sectors. For example, there is a chance that SMPH's reclamation projects might not push through despite winning the bidding. Just today, Ayala's contract with UP Technohub will reportedly be reviewed by the government.

Thus, despite already very low valuations, the PSEi is down 3% YTD despite practically every other stock market being in the green this year. Being red in a sea of green is a negative sign. We now have a cautious stance for Philippine equities.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



The signing of the Phase One trade deal between the US and China caused most global markets to rise, with US equities hitting fresh record highs. Unfortunately, fears of Taal's eruption and increasing regulatory risk have made the Philippines one of the few stock markets that are in the red YTD. We have reduced our allocation to stocks which may be exposed to regulatory risk.