MARKET OUTLOOK: CAUTIOUS

SECTORS: OVERWEIGHT SELECT BANKING AND PROPERTY STOCKS

TECHNICALS: SUPPORT AT 7200 FOLLOWED BY 6800, RESISTANCE AT 7500 FOLLOWED BY 8200

With the Wuhan virus toll increasing every day without slowing down, investors were spooked as it brought back memories of SARS. As of this writing, the number of infected is above 17,000 with 362 deaths. Unfortunately, 1 of these deaths happened to be in the Philippines, making us the first country outside of China to have Wuhan nCoV-related death.

With the WHO declaring a global alert due to the Wuhan virus, many countries have suspended flights to China, instituted

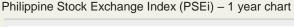
measures preventing the entry of Chinese or people who visited China, repatriated their citizens, and enforced quarantines. China has likewise quarantined many provinces, shutting down businesses and putting entire cities into a standstill. Economists expect China's 1Q20 GDP growth to be as low as 4% because of the virus.

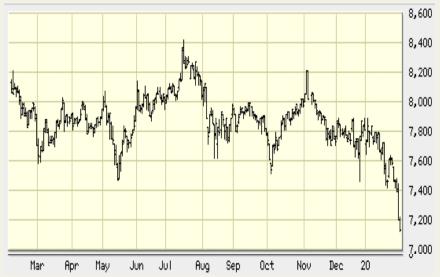
Though human-to-human transmission outside of China remains limited, it spooked investors because of its impact on the global economy. Companies with manufacturing plants or retail stores in China would also be affected significantly. US equities sold off by 2% last Friday, with the Dow Jones index and S&P 500 erasing their YTD gains. Global markets fared even worse.

China's stock market finally reopened yesterday after a 6-day holiday and the Shanghai Composite has already fallen 8% in just one day. This may drag down other Asian markets as well, including the Philippines. The PSEi is the 3rd worst performing Asian market behind China and Thailand, down 8.7% YTD.

The Chinese yuan also depreciated sharply, trading above 7 as onshore FX trading resumed as well. This dragged other Asian currencies, including the Philippine peso which is now at 50.80/USD.

Fortunately, history shows that markets tend to bottom within 2-3 months after the first media report on an epidemic. We also note that markets bottomed as the infection rate started to slow down. Thus, we have started putting our cash to work slowly. At the 7200 level, the PSEi's 2020 P/E is already at 14.2, below 10-year average valuations.





TRADING STRATEGY



With the Wuhan virus epidemic numbers accelerating, markets sold off last week. The sharp drop in both US and Chinese stock markets will also dampen sentiment for risk assets. We are slowly putting our cash to work.

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