

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTORS: OVERWEIGHT TELCOS AND SELECT PROPERTY STOCKS

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

With epidemics of COVID-19 taking root in countries outside of China, such as Japan, Korea and Iran, investors once again fled to safe havens. US equities were making new highs as it seemed that the infection rate in China was slowing down. However, with fears of a pandemic becoming all too real, a sharp correction ensued.

The longer COVID-19 lasts, the more significant its impact on economic growth will be. With the virus now spreading across the globe, economic forecasts may be dialed down further. This will have a negative impact on risk assets, prompting a flight to safety. This explains the strength in bonds in the past few days.

Domestically, the Philippines has been hit by a perfect storm. Regulatory risk remains in play, COVID-19 concerns remain, and political news such as the cancellation of VFA may be scaring away foreign investors. Moreover, we may have a repeat of the water crisis as Angat Dam water levels continue. To top it all off, there is news of China cancelling the passports of POGO workers in its bid to combat fraud and money laundering. This will have a negative impact on property companies which are heavily exposed to POGOs.

Taking all this together resulted in the Philippines being the worst performing stock market in Asia YTD despite having fewer COVID-19 cases than most other countries. We will be monitoring developments further as this correction may not be over.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



Global markets corrected last week as COVID-19 is potentially becoming a pandemic. Combined with other domestic risks and weakness in emerging markets, we expect a significant correction for Philippine stocks. We will be monitoring further developments before taking further action.