

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 6000 FOLLOWED BY 5700, RESISTANCE AT 6500 FOLLOWED BY 6800

The bloodbath that markets have been experiencing in the past weeks has turned into a fullblown massacre. As investors were attempting to hold back their coronavirus-induced panic, they were hit with yet another bolt from out of the blue - an oil price war.

Pandemic concerns continue to remain top of mind as 110 countries have now reported at least 1 case of COVID-19. In a bid to contain the COVID-19 epidemic in Italy, the government imposed a lockdown affecting 25% of its population, or 15M people. More quarantines of this nature will have a negative economic impact.

In the wake of the COVID-19 outbreak, significant supply chain disruptions led to lower growth forecasts. This caused oil prices to plummet to 2-year lows. Thus, OPEC and Russian oil ministers held a meeting to discuss a potential extension or increase in oil supply cuts. After a hasty announcement regarding potential cuts, business channels reported that Russia will not be onboard. Another meeting failed to bear any fruit, making it clear that no one has to abide by the quotas starting April 1. This sent oil prices into a tailspin, dropping 10% last Friday. As of this writing, oil prices have fallen 27% - their biggest one-day drop since the end of the Gulf War.

The precipitous drop in a highly traded commodity sent ripples across stock markets worldwide. Major markets are down more than 5%, US equity future trading was halted, US bond yields went to new all-time lows, and commodity-related currencies cratered.

Domestically, the PSEi was not spared from the selloff. Down 6.7%, the index has broken through major support levels and is at 2016 lows. This is the biggest one-day drop since August 2015, which was likewise triggered by a plunge in oil prices. Sentiment has also turned markedly negative as a slew of confirmed COVID-19 cases are popping up in different parts of Metro Manila. The DOH has raised an emergency red alert as community spread is now ongoing in the Philippines. Some government officials are also considering a lockdown of Metro Manila in order to prevent COVID-19 from spreading. This may further dampen both sentiment and economic growth in the Philippines.

Given the sheer speed and magnitude of the recent plunges, it is hard to say if we have reached bottom. At this point, we remain on hold as we wait for the market to stabilize. While valuations are very cheap, it is hard to say when this massacre will end.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



Bloodbath after bloodbath continue to hit investors as COVID-19 is now present in 110 countries. Compounding the drop is the impending oil price war between OPEC states and Russia. With major support levels breached, we remain on hold as it is unclear where the bottom is.