

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTORS: OVERWEIGHT STOCKS WITH SIGNIFICANT SHARE BUYBACK OR CATALYSTS

TECHNICALS: SUPPORT AT 5000 FOLLOWED BY 4800, RESISTANCE AT 5700 FOLLOWED BY 6000

After falling sharply on Thursday last week, markets bounced back Friday as Trump declared a national emergency and unveiled stimulus packages for specific sectors and 0% payroll taxes for the year. This boosted investor sentiment, with the Dow Jones index closing up 9.4% last Friday for its strongest one-day move since 2008. The PSEi erased a 10% drop to end the day up 1%.

So things were looking good heading into the weekend. Unfortunately, fast rising cases in Italy, Spain, US and Malaysia offset the slowing infection rate in China and Korea.

Headlines of presidents or their spouses getting sick, as well as the US widening its travel ban rekindled the fear in investors. As of Monday, the PSEi closed down 7.9%. Futures of major US equity indices have also hit limit down.

Against this backdrop, the Fed was quick to act. Fed Chairman Jerome Powell announced that they are cutting interest rates by a full percentage point to zero - back to where it was during the 2008 US Financial Crisis. It remains to be seen whether this is enough to boost market sentiment because what we are experiencing now is a virus-induced slowdown.

Domestically, the BSP is also expected to cut interest rates aggressively as the one-month community quarantine will take a significant toll on economic activity. Mall closures will have a broad impact as it affects owners, tenants and their employees. Curfews as well as the exodus out of Metro Manila further added to the climate of fear. Unfortunately, we are also seeing rising numbers of cases and deaths, indicating that COVID-19 is far from being contained in the Philippines. This makes it very likely that economic data over the next 1-2 months will be markedly worse than Jan-Feb figures.

Monetary stimulus must also be matched with fiscal stimulus in order to restart sputtering economies. Until such point that this pandemic peaks or is put under control, we expect volatility and sharp plunges to continue. During this time, it is best to exercise caution.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



As markets were trying to regain their footing, news last week of a community quarantine (lockdown) in Philippines and a lockdown over the weekend in Spain scared off investors once again. Even news of the Fed cutting interest rates and reserve requirements to zero spooked markets and caused Treasuries to surge. Until it is clear that the COVID-19 pandemic is under control, markets will be fearful and jittery.