

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTORS: OVERWEIGHT STOCKS WITH SIGNIFICANT SHARE BUYBACKS OR CATALYSTS

TECHNICALS: SUPPORT AT 5400 FOLLOWED BY 4800, RESISTANCE AT 5700 FOLLOWED BY 6000

As people continue to grapple with the rising human toll of COVID-19, any glimmer of hope is a welcome sign for investors. After the Fed's bazooka, investors were greeted with news that Gilead may have found a cure to COVID-19. Though testing is far from complete, this was enough to send the Dow Jones index up more than 700 points last Friday. While Gilead's drug is still in a very preliminary testing stage, we believe that news of an effective vaccine will be a significant catalyst for markets.

On the bright side, it seems that lockdowns are working and the epidemic curve in many countries is flattening. However, we have to be wary of new epidemic clusters in Russia, Africa, Singapore and other countries. The lifting of lockdowns has to be closely watched as well. A resurgence in cases post-lockdown will be a big dampener for the economy and capital markets.

In the Philippines, the ECQ continues, with any extension contingent on the data gathered during this period of mass testing. There are some reports of non-compliance with the ECQ, which has prompted calls for its stricter implementation and extension. Recent events also indicate that government is leaning towards maintaining a strict lockdown instead of relaxing it.

Assuming there is no 2nd wave of the epidemic, it is likely that the worst is behind us. Unfortunately, until the population is vaccinated, we have to grapple with this new normal for the foreseeable future. Given the changes in consumer behavior and new economic realities, we are using this time to recalibrate the portfolio.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



Hopes of a potential cure lent bullishness to global market last week. However, many uncertainties remain, such as the timing of a cure or vaccine, as well as how long and deep the economic impact of COVID-19 will be. With markets recovering anywhere between 1/3 to 1/2 of their drops, this rally may take a pause as investors search for new catalysts. We are using this time to recalibrate the portfolio.