

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

Any news that point toward the end of COVID-19 is music to the ears of investors. Thus, when Moderna reported that it is moving to Phase 2 trials for its experimental vaccine, US equities continued their trek higher, lifting global stocks as well. Moreover, it seems that investors are writing off 2020 and looking forward to 2021.

Oil prices also staged a remarkable comeback as it seems that storage concerns are not as dire as feared. Despite demand still continuing to be weak in the medium term, near month contracts for oil have traded back to previous month levels of above \$20/barrel. Note that May WTI oil futures went below zero and as low as -\$37/barrel.

Domestically, 1Q20 GDP surprised analysts as Philippine GDP contracted by 0.2% vs. forecasts of 2.9% growth. This is not only the first contraction since 1998, but it shows that our economy was already weakening prior to the COVID-19 shutdown, only 2 weeks of which happened in 1Q20. Household consumption declined by 0.2%, while the industry sector declined by 3% on the back of reduced manufacturing and construction activity.

With this GDP print, it seems that 2Q20 GDP will be extremely negative as bulk of the lockdown happened during this time. This means that corporate earnings forecasts have to be dialled down as well. While it is difficult to predict what shape the recovery will take, it is crucial that the government implements aggressive fiscal stimulus in order to prevent a prolonged slowdown. Until a vaccine is developed, it is hard for us to go back to a pre-COVID normal. Thus, we remain cautious on the market and remain on hold as we monitor news here and abroad.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



US markets continue to move higher as investors pin their hopes on a vaccine. Unfortunately, the PSE is not performing as well. This can be attributed to lower than forecast 1Q20 GDP and corporate earnings. We remain on hold for now.