

Vantage Point

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

MARKET OUTLOOK: NEUTRAL

SECTOR PICKS: RECOVERY PLAYS, COMPANIES WHOSE EARNINGS CAN RECOVER QUICKLY

TECHNICALS: SUPPORT AT 6000 FOLLOWED BY 5700, RESISTANCE AT 6500 FOLLOWED BY 6800

After rising more than 1000 points over 2 1/2 weeks, the PSEi is finally taking a breather. The sharp correction in US stocks last week due to fears of a 2nd wave of COVID-19 put an end to our recovery rally. The Dow Jones index's 1862-point drop last Thursday was its largest since March.

Given the speed and steepness of the rally, there were concerns that some stocks may have become overvalued and that the market may have gotten ahead of itself. Thus, a correction and/or consolidation after this rally may actually be healthy for the broad market.

The major near-term risk is an uncontained 2nd wave in the US, China and other countries develops, as well as an uncontrollable epidemic in the Philippines. With some states in the US seeing new epidemic clusters and Philippine cases rising at a faster pace than in March-April, there are concerns that stricter lockdowns may be implemented once again. In the US, Treasury Secretary Steven Mnuchin said that they will not impose broad lockdowns anymore. Domestically, President Duterte has kept Metro Manila on GCQ until the end of the month while Cebu which has seen a significant rise of cases was reverted back to ECQ.

While the PSEi was rising, the Philippine peso strengthened as well. Last week, it closed below 50/\$ for the first time since 2018. This is due to the US dollar's recent weakness as well as our lower import bill. While a strong peso is a positive for Philippine assets, we note that too strong a peso may be detrimental to our economy because of its effect on exports, OFW remittances and the competitiveness of the BPO sector.

That said, we do not expect the pullback due to a 2nd wave to be as bad as what happened when COVID-19 initially hit us in 1Q because countries are now more prepared for this disease. We believe that markets have bottomed, so dips may well be an opportunity to buy.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With fears of a 2nd wave in the US causing a 1,862-point drop for the Dow Jones index last Thursday, we expect the PSEi to correct as well. If this correction gets deeper, it may open up an opportunity to buy.