

# Vantage Point

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

## MARKET OUTLOOK: NEUTRAL

**SECTOR PICKS:** RECOVERY PLAYS, COMPANIES WITH RESILIENT EARNINGS AND TELCOS

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

With COVID-19 cases crossing the 10 million mark and deaths above 500,000, markets are beginning to feel more concerned about a potential 2nd wave of the virus in countries like the US, or an uncontained 1st wave like in Brazil. Former VP Joe Biden's strong showing in surveys at the expense of Trump is also stoking fear of higher taxes in 2021.

As markets have bounced strongly off their lows erasing most of their losses, equities have become susceptible to corrections due to bad news. In the near term, COVID case updates, 2Q20 earnings and news regarding vaccine trials will likely determine the stock market's direction.

Domestically, cases continue to rise, especially in Cebu. Business have started reopening, but the sluggishness of the recovery is palpable. News of POGOs, small and large, closing down and pulling out of the country is also a negative for the property sector and for government revenues. These 2 issues will likely weigh on the PSEi in the near term as well.

Offsetting these is the BSP's 50 basis point rate cut. This should help the country recover faster from this lockdown recession. However, it remains to be seen if rate cuts will still be as effective in stimulating growth given that we are in the midst of both a supply and demand shock.

Given that COVID-19 developments will continue to be the most important factor driving markets, we expect equities to consolidate or correct as cases continue to rise. That said, we believe that we hit bottom last March 19. However, while corrections are an opportunity to buy, one has to be patient and selective because of the varied impact COVID-19 has on different companies and sectors.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



Markets are starting to react to the continuously rising cases in countries such as the US and Brazil. Corrections last week in global markets are likely to spill over to the Philippines. While corrections are an opportunity to buy, one has to be patient and selective.