

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

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

TECHNICALS: SUPPORT AT 5700 FOLLOWED BY 5000, RESISTANCE AT 6500 FOLLOWED BY 6800

Not only are we dealing with rising cases of COVID-19, but increasing tensions between US and China as well. In the past week, the US ordered China to close down its consulate in Houston. China eventually retaliated by ordering the US to close its consulate in Chengdu. Increasing anti-China rhetoric was something we expected going into US elections in November as Trump tries to whittle away at Biden's lead. Recent polls show Biden leading by as much as 15%. However, the closure of consulates adds a new dimension to the conflict.

We also got some news regarding vaccines. However, these proved to be disappointments relative to the market's expectation. We will be monitoring vaccine developments in the coming months as the pace in Phase 2 and 3 trials picks up.

As for the Philippines, the number of COVID-19 cases have exceeded 80,000, with recent daily cases averaging at ~1,900/day. At this current rate, we might reach the 85,000 threshold in 2 days, which Malacanang spokesman Harry Roque said is the trigger point for the reimposition of MECQ in Metro Manila if it is reached before end July. If a lockdown is reimposed, we expect a sharp correction for Philippines.

Belying the weakness in the stock market is the strong peso. By virtue of a weak dollar and the sharp drop in imports, the peso is continuing its upward trend, with a low of 49.16/\$, the strongest it has been since 2016.

The President's SONA will also be dissected. If there are new messages regarding infrastructure spending, economic stimulus and other programs that will lift the Philippine economy, it may partially offset the bearish sentiment for equities.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Heightened US-China tensions in addition to rising COVID-19 cases are weighing on the market. With the rising possibility of renewed lockdowns in Metro Manila, we are increasing our defensive tilt.