

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTOR PICKS: TELCOS, LOW VALUATION STOCKS WITH STRONG EARNINGS GROWTH POTENTIALS FOR 2021

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

As the Philippines continues to grapple with the COVID-19 pandemic, economic and financial data continues to show its profound impact on the economy. From 2Q20 GDP figures to corporate earnings to unemployment data, it is clear that lockdowns practically froze certain parts of our economy and dampened consumer sentiment. That said, it seems that the worst is behind us even as COVID-19 cases continue to climb.

However, while the bottom for the economy and stock market may be in, incoming data does not indicate that the recovery will be swift. With 3Q20 GDP growth still expected to be weak and people still afraid to go out, the move back to normalcy may take a while. Thus, our base case is a gradual economic recovery.

Moreover, news on the vaccine front is encouraging. Many countries such as the US, China, Russia, France, Germany, etc. are reporting promising data, with some companies embarking on Phase 3 trials already. Though the actual distribution of the vaccine may only happen next year, markets may price this in before the vaccine actually hits our shores.

With US elections coming in November, more aggressive anti-China rhetoric from Trump, new epidemic clusters in countries that previously put COVID-19 under control, and colder weather going into yearend which may increase COVID-19's transmission rate, we expect volatility to remain high in the coming months. On the other hand, hopes for a vaccine will likely keep markets buoyant. As these hopes get closer to reality, we expect battered countries like the Philippines to outperform its peers.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



We continue to reduce the defensive tilt of the portfolio. However, with new epidemic clusters emerging in other countries as well as a potential extension of the MECQ for the Philippines, we are doing this at a gradual pace.