

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

With all major earnings and economic data releases past us, we note that the PSEi continues to underperform its ASEAN peers. Even positive sentiment from the relaxation of lockdowns proved to be short-lived.

The good news is R0 also dropped from 1.5 pre-MECQ to 1.1, meaning that lockdown was successful in reducing the infection rate. However, this has to continue trending lower in order for the Philippines to finally flatten the epidemic curve. Since we expect this to take time, our base case is a gradual economic recovery, with positive quarterly growth only in 4Q20.

The peso is showing remarkable strength and is now trading at the 48.60/\$ support level. If this breaks, next support lies at 48. Unfortunately, this will no translate to high stock prices until foreign funds stop selling. So far, net foreign selling amounts to PhP 96 billion YTD.

Bayanihan 2 is also likely to be signed by the President. This will unlock PhP 140 billion worth of fiscal stimulus. While this only amounts to ~0.9% of GDP, it is still a step in the right direction and prevents us from going above a fiscal deficit-to-GDP of 10% and potentially triggering a credit rating downgrade. Reducing the loan payment moratorium from 1-year to 60 days is also a welcome compromise. A 1-year moratorium would be devastating for the banking sector and will have a profound domino effect on the economy.

That said, news of a cap on credit card interest rates is concerning. While this will help either increase savings or spur domestic spending, we are wary of its impact on the lending policies of banks as they may try to reduce the risk on their loan books to offset the loss in yield.





Despite the relaxation of lockdowns, the PSEi continues to underperform its peers. We remain on hold as we assess the impact of Bayanihan 2 and the COVID-19 situation in the Philippines.

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