

# Vantage Point

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

## MARKET OUTLOOK: CAUTIOUS

**SECTOR PICKS:** CYCLICAL STOCKS WITH EFFECTIVE RECOVERY PLANS AND FORTRESS BALANCE SHEETS, STOCKS WITH LOW VALUATIONS BUT POTENTIALLY STRONG EARNINGS GROWTH IN 2021

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

US equities continue to remain choppy, with technology stocks still on correction mode. This volatility has spilled over to other markets around the world. While it is too early to say that a shift from technology and work from home stocks to battered recovery/cyclical plays has started, it is likely that the PSEi will outperform if and when this shift unfolds.

Interestingly, the PSEi did not follow the plunge in US stocks. In fact, not only were we in the green last week as the US corrected, but we were also the best-performing Asian equity index last week. However, we are still the worst performing Asian market YTD in local currency terms.

If we take into account the peso's strength though, we are the 2nd best ASEAN equity index on a YTD basis in dollar terms. With the peso breaking yet another key technical level, next support lies at 48. This may prove to be more durable and we may see a consolidation around these levels.

With the economy set for a slow and gradual reopening, we expect the same for the Philippines' growth trajectory. However, this can all change depending on how the epidemic evolves domestically, as well as developments on the vaccine front. So far, cases have moved higher after the initial impact of the August lockdowns, but are below daily averages we saw in June and July. A downward trajectory of daily cases without a lockdown would be bullish for the economy and stock market.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



With volatility in the US spilling over to other equity markets, the PSEi remains locked in a consolidation. Developments surrounding US elections may also be significant factors in determining the market's direction. Thus, we will be using dips as an opportunity to buy battered stocks with good growth prospects, albeit gradually.