

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 stocks continue to remain in a corrective wave, with the Dow Jones and S&P 500 falling for 4 straight weeks - the first time since August 2019. Stocks around the world have either dropped, such as in Europe, or remain locked in a consolidation, like the Philippines.

There are 2 crucial risks that have weighed on markets. First is the resurgence of COVID-19 in Europe. After slowly reopening their economy, the EU has witness spikes in reported cases, causing some governments to roll back the relaxation of quarantine rules and reimpose lockdowns. This will have a significant impact on their economy and sentiment.

Second, news surrounding US elections shows an increasing chance of a tumultuous proclamation if Trump loses. Last week, Trump refused to guarantee a peaceful transition of power if he loses the election. There was even news that his team is looking for ways to delay or overturn the proclamation of Democratic candidate Joe Biden if he prevails over Trump. Though it is unlikely that this scenario may come to pass, Trump's statements have unnerved investors. It will be interesting to watch the 1st US Presidential debate this week.

Domestically, COVID-19 cases are showing an encouraging trajectory, with the 7-day moving average of cases now at 2,500. If this continues to fall, we may be able to reopen more of our economy going into yearend while also partially restoring consumer and business confidence.

What recent events show us is that many factors are pulling the market in different directions. While waiting for a vaccine though, we expect stocks to remain tentative. Thus, we will remain on pause as we monitor these major events that continue to unfold.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



A slew of bad news last week caused the US correction to continue for its 4th straight week. While Philippine stocks seem to be relatively insulated in terms of price movement, our market is still locked in a consolidation. We will take a pause as some tail risks are starting to emerge.