

Vantage Point

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

MARKET OUTLOOK: NEUTRAL

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

The past 3 weeks have been encouraging for the Philippines as the COVID-19 epidemic curve has flattened. Unfortunately, the picture is different abroad as the number of daily cases globally hit a record high of 413,278 last week, primarily from US, Europe and India. With US and Europe heading into winter where COVID-19 can spread faster along with other seasonal diseases, White House Health Advisor Dr. Anthony Fauci said that the US "faces a whole lot of trouble."

While we expect rising cases to weigh on sentiment, markets do not seem as sensitive to these issues. Thus, any correction will not be as deep as what we saw in 1Q20. Moreover, we expect a slew of news on potential vaccines and cures in the coming weeks. Good and bad news on this front are the likely drivers of the market in the near term.

In addition to that, US elections will affect all markets. As we wrote in our Philequity Corner column yesterday, it has significant ramifications not just for the US stock market, but also EM stocks. A Biden win will usher in looser fiscal policy and more infrastructure spending, which bodes well for commodity prices, global growth and inflation. In turn, this is positive for emerging markets, so it should lift the Philippines as well. Combined with a potential shift to the laggard cyclical/recovery plays, we may see strong performance for the PSEi towards yearend and 2021.

However, we are still wary over bad news on the vaccine front and possible attempts to delay the proclamation of the next US president. Thus, we are keeping a little cash on the side in case there is a dip in November.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



An increasing chance of a Biden win is positive for EM, including the Philippines. Thus, there is a possibility that the PSEi may break out of its consolidation ahead of US elections. However, we remain concerned over rising cases and potential delays in the proclamation of the next US president. We are slowly nibbling in the market as we monitor these developments.