

# 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

After a long consolidation, the PSEi finally staged a strong breakout. Not only did it break through its consolidation pattern, but it also went beyond the 6000 level and its 200-day moving average. All told, its 9.9% move made it the best-performing stock market in the world last week.

There are many factors behind the PSEi's strength, such as: 1) Less stringent rules on business operations; 2) Increase in mass transportation capacity; 3) Resumption of non-essential travel; 4) Shortened curfew hours; 5) Looser age-based restrictions; 6) Global shift from tech/defensive names to laggard cyclical/recovery plays; 7) Revival of the mining sector; 8) Lifting of moratorium on oil exploration in WPS; 9) Approval of House budget; 10) Stable peso; and 11) Hopes for a vaccine.

Moreover, foreign funds were net buyers last week for the first time in nearly a year. This PhP 1.45 billion net buy over 3 days propelled our market to its next resistance level of 6500.

While we welcome this move, the speed of the rally calls for some degree of caution. Note that this is happening against a backdrop of rising COVID-19 cases in the US, Europe and many other countries. Despite the flattening of our epidemic curve, the reopening of our economy may also lead to a rise in daily cases, which we hope does not happen. In addition, it may be safe to have some dry powder heading into US elections. If one wants to increase equity exposure, it may be best to wait for dips.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



With its 9.9% move, the PSEi was the best performing stock market in the world last week. This came on the back of moves to further reopen the economy. However, the rally seems a bit stretched against a backdrop of rising COVID-19 cases abroad and US elections in November.