

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

The world's best performing stock market last week continued its outperformance, ending the week only slightly down despite global markets falling sharply. It seems that investors are starting to shift out of technology/defensive names and into battered cyclical stocks. With the PSEi composed mainly of these types of companies, it is a beneficiary of this shift.

Also, our flattening epidemic curve is a sharp contrast to what is happening in the US and Europe. In fact, some countries such as Ireland, Germany and France have reimposed lockdowns as daily cases surged and hospital capacity was strained. As long as the Philippines can keep COVID-19 under control while gradually reopening the economy, our stock market can maintain its relative strength.

Unfortunately, net foreign selling has returned. With the Dow Jones index losing more than 900 pts last Thursday, foreign funds cut their equity exposure across the board. We expect markets to remain volatile and jittery because of fears of a COVID-19 resurgence and nervousness over the outcome of US elections.

For now, we will remain on hold as we monitor the news flow next week. If there are sharp and sudden drops, we will be using these as an opportunity to buy. Note that many pharma companies will be reporting the results of their Phase 3 trials in the coming weeks.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



After a sharp rally, the PSEi is now taking a breather as COVID-19 fears and US election jitters led to corrections abroad. However, the PSEi remains to be an outperformer in recent weeks. We remain on hold as we await the results of the US elections.