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Vantage Point

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

MARKET OUTLOOK: POSITIVE
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 6500, RESISTANCE AT 7000

From bottom dweller, the PSEi is now outperforming its ASEAN peer such as Thailand, Indonesia and Singapore. This is due to its blistering rally in the past few weeks. This seems to be part of an ongoing global shift from tech/defensive names to battered cyclical stocks. Since ASEAN stock markets are mostly representative of traditional economies, the Philippines and its neighbors are beneficiaries of this shift.

Sadly, the recent typhoons have wreaked havoc across the country. Many of our citizens are now facing the risks of getting COVID-19, homelessness and the destruction of livelihood. Though the damage may not be as large as Ondoy or Yolanda, it will take some time to fully rehabilitate these regions and get our fellow citizens back on their feet.

Regarding COVID-19, our epidemic curve continues to flatten with the 7-day moving average of daily cases now at 1,600. Positivity rates and ICU capacity allocated for COVID-19 have also dropped. However, the potential resurgence in evacuation centers bears watching. Let us hope that our daily caseload continues its downtrend.

With the Philippines now being able to put COVID-19 under control vs. resurgences in more developed markets, the PSEi has rallied to the 7,000 level. Note that this happened against a backdrop of below forecast 3Q20 GDP and lackluster 3Q corporate earnings. This is because the market is looking forward to a recovery in 2021. That said, given the steepness of this rally, a correction may actually be healthy.

Philippine Stock Exchange Index (PSEi) 1-year chart

TRADING STRATEGY

The ongoing global shift from tech/defensive names to battered cyclicals will continue to benefit Philippine stocks. However, the rally has been quite steep so a correction may be healthy. We remain on hold.