

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

The BSP's surprise rate cut last week electrified Philippine stocks, especially the banking sector. This shows how resolute the BSP is in ensuring that the economy remains well supported on the monetary front. Indonesia announced a surprise rate cut as well, which also caused its stock market to rise. Interestingly, both the Philippine peso and Indonesia rupiah remained stable despite the rate cuts. This shows that investors welcome easier monetary policy because of the impact of COVID-19.

At the same time that ASEAN markets including the Philippines are strengthening, we noticed that US stocks have started to soften. This is part of the shift we have been flagging in the past weeks - from tech/defensive names to laggard cyclical plays, from DM to EM. With more positive vaccine news coming out, we believe this shift will continue.

The strength of our stock market is also supported by ever decreasing COVID-19 cases. Not only is the daily case count below 2000, but active cases are also below 30000. Despite the slow recovery of the economy, this shows that 2021 may be a year of recovery for the Philippines if the epidemic can be kept under control. Note that this is a sharp contrast to what is happening in the US and Europe.

That said, the recent rally has been quite steep, with the PSEi up more than 20% since September 30. Though it has hard to forecast corrections, a pullback will actually be healthy. We prefer to be buyers on dips.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Weakness in the developed markets continues due to rising COVID-19 cases and a shift from DM to EM. This benefits the PSEi which continues to rally. At this point, a correction may be healthy. We would rather be buyers on dips.