

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 6800, RESISTANCE AT 7200

After being the worst performing stock market last week, after MSCI rebalancing, the PSEi roared back with a vengeance. In fact, the PSEi reached its highest post-COVID close yesterday at 7194. The biggest gamechanger for our stock market was and remains to be the development of vaccines with more than 90% effectiveness.

So far, the shift from defensives to cyclicals continues, benefitting ASEAN economies such as the Philippines, Thailand, Indonesia, Malaysia and Singapore. Moreover, these countries are among the primary beneficiaries of a vaccine. As long as this shift is ongoing, EM is likely to outperform DM.

Since the market is a forward-looking creature, the higher than expected inflation figure is likely to be a non-event for markets, as well as reports of worse than expected full year 2020 GDP. It is likely that vaccine hopes and gradual reopening of our economy will be enough to buoy our market higher. However, we note that the PSEi continues to gain ground despite continuous foreign selling. If these foreign flows reverse, we may see significantly more upside for the stock market.

Given the steepness of the rally and what seems to be rising volatility, we would rather be buyers on dips. We continue to favor cyclicals over defensives as long as they have fortress balance sheets.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Since hitting the 7200 level, the PSEi is starting to experience higher volatility. While the medium term trajectory is higher, it is harder to predict the short term moves of the market. However, given that the steepness of the rally, we would rather be buyers on dips.