

# Vantage Point

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

## MARKET OUTLOOK: NEUTRAL

**SECTOR PICKS:** CYCLICAL STOCKS WITH EFFECTIVE RECOVERY PLANS AND FORTRESS BALANCE SHEETS, STOCKS WITH LOW VALUATIONS, COMPANIES WITH LESS DOMESTIC EXPOSURE

**TECHNICALS:** SUPPORT AT 7000 FOLLOWED BY 6800, RESISTANCE AT 7500 FOLLOWED BY 8000

As US markets were hitting new highs to start the year, risks arising from record COVID-19 cases and a potential inflation spike started to take shape. The impact of lockdowns in developed markets are also starting to dent 2021 growth forecasts.

Though we are seeing rising COVID-19 cases domestically, these are a far cry from the trends we are seeing in US, Europe, South Africa and Japan. However, the impact of the holiday season mobility will only be seen in the case count starting this week. We note that both R0 (now at 1.2 from 0.9) and the positivity rate (now at 5.5% from 4%) are rising.

As a net oil importing country, above forecast is inflation will have a far more significant effect on us than our ASEAN neighbors. Recall that 3 years ago, an inflation scare sent our market tumbling by about 15%. Although oil is still far from the \$80/barrel level then, its recent ascent above the crucial \$50 level bears watching.

The main catalyst for our market now is the actual rollout of the vaccine. Government seems to indicate that this will only start in earnest in 3Q21, with small batches in the coming months. The speed and effectiveness of the national vaccination program is crucial to the recovery of the economy and asset prices. The main tail risk now is the effectiveness and potential side effects of the vaccines.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



As we wrote last week, our concerns regarding COVID and inflation are starting to get noticed in global markets. Weakness there will likely be reflected domestically as well. We remain on hold as the long term trajectory is still higher.