

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

After a strong start to the year, it seems markets are taking a breather as COVID concerns re-emerge. In the absence of near term catalysts, the spread of new variants, vaccine rollout delays and vaccination safety risks are unsettling markets.

Moreover, if last week is any indication, it seems that technology and defensive sectors are once again outperforming cyclical stocks. North Asia also outperformed Southeast Asia as it has more technology exposure. We are monitoring whether this is the end of the rotation to cyclicals or just a pause. Note that the PSEi is composed mostly of cyclical stocks.

Unfortunately for the PSEi, we are once again at the bottom of the barrel in 2021. We are the 2nd worst performing stock market in Asia at -0.4% YTD. Only the Philippines and Malaysia are in the red this year. In our case, many analysts and economists noted that the delay in vaccine procurement will result in a delay in economic recovery as well. In fact, some investment firms, such as Goldman Sachs and Citigroup, have already downgraded their GDP growth forecasts for the Philippines.

In addition to that, since Monday last week, we are seeing unabated net foreign selling once again. As we mentioned before, we need foreign selling to reverse or at least pause in order for our market to stage a lasting recovery. Unfortunately, analysts are citing delays in vaccine rollout and relatively high valuations as concerns when investing in Philippine stocks.

On the other hand, it seems mass inoculation is likely to start in 3Q21. If this proceeds as planned, then the Philippines may be able to reverse its current weakness and rally strongly into yearend, as it did in 2020. Until then though, we remain on hold.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



With most of the good news and a seasonally strong period for stocks behind us, it is likely that the market will consolidate or correct in the near term. We remain largely on hold as we monitor global markets and the COVID-19 situation in the Philippines.