

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 6800 FOLLOWED BY 6500, RESISTANCE AT 7000 FOLLOWED BY 7500

The lack of positive catalysts, retail participation in 3rd liners instead of index stocks, fears of inflation and concerns over vaccine procurement have caused the Philippines to fall 7.4% YTD. According to Bloomberg, the PSEi was the worst performing stock market in the world on a YTD basis as of last Friday.

This shift into 3rd liners is not isolated to the Philippines, as can be seen in the moves of stocks like Gamestop, a bankrupt company which was up as much as 2800% this year as retail traders triggered a short squeeze. Unsurprisingly, broad US indices corrected as well, giving up their gains for the year and dragging global markets down with them.

4Q20 GDP was also below forecast at -8.3%, with the Philippines contracting 9.5% for full year 2020. However, markets paid no heed to this. Instead the concern was on the government's 1Q21 GDP expectation. During a press conference, it was indicated that there is no significant change in trend this quarter, with positive growth only like in 2Q21. Coupled with rising inflation, we are wary of GDP growth downgrades.

On the flows side, an increase in foreign participation was accompanied by significant foreign selling as well. A lasting recovery for the PSEi has to be accompanied by a pause or reversal in net foreign outflows.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



With both global and domestic markets correcting as we guided last week, prices are starting to become more attractive. At the 6500 level and lower, there is significant upside already over a 1-year time horizon. As prices move lower, we will be slowly nibbling in the market.