

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 big news last week was the above forecast inflation figure. Although market participants were already expecting a higher print, the 4.2% January inflation was higher than all forecasts. It was driven primarily by food, which was up 6.2% YoY. Though the 60-day price freeze on some meat products may slow this down, there are concerns that inflation will continue to remain stubbornly high in the coming months. Note that while rice price has remained low, oil prices have been on the rise.

Fortunately, the PSEi took this in stride. After becoming the worst performing stock market on a YTD basis, the PSEi bounced back sharply in the past week, gaining 407 points. At the 6600 level and lower, bargains have started to emerge. Foreign selling has also slowed down significantly, giving our market ample breathing space to carve a strong support level.

On the foreign front, vaccine hopes are starting to crack as there are new studies showing that the current batch of vaccines have much lower efficacy against new variants, such as the one from South Africa. This will have an impact not only on the most vulnerable sectors such as tourism, but also on each country's approach to preventing a resurgence of COVID-19.

Given these, we are a bit wary of the medium term prospects of the stock market. While we will be buyers on dips, we have to be selective and cautious as COVID-19 tail risks are starting to emerge.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Despite above forecast inflation, the PSEi managed to bounce back to the 7000 level as bargain hunters stepped in. However, with fears of new variants casting doubts on vaccine efficacy and potentially higher inflation in the coming months, we raised cash levels substantially.