

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 shortened trading week ended with PSEI rebalancing. AGI experienced a significant upweight, SM & ICT slight weight increases, SECB JFC & MPI had modest weight reductions while everyone else had negligible pro rata downweights. However, this weighed on the market which fell 1.3% last Thursday.

On the bright side, net foreign selling seems to have dried up. In fact, we are seeing trickles of selective foreign buying already in the past days. As we mentioned before, even a pause in foreign buying is enough for our market to move higher. However, a sustainable recovery is more probable if foreign funds start buying the Philippines decisively.

On the vaccine front, it seems we will be receiving our first shipments of vaccines in the coming weeks. While not yet substantial, this may help LGUs and the national government in their preparation for mass vaccination in 3Q21. Once this begins in earnest, it will significantly improve consumer and business sentiment, economic growth forecasts and stock market performance.

However, inflation bears watching as crude oil prices have broken the \$60/barrel level. Note that when we had our inflation scare in 2018, oil prices were between \$70-80/barrel. If high inflation is not transitory, GDP forecasts may have to come down.

'Offsetting higher inflation is the strength of the peso. As of this writing, it has broken the crucial 48/\$ support level. A decisive break of this level indicates further strength, with the next support at 47.40.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



After a sharp rally to 7000, the PSEi took a breather as index rebalancing weighed on heavyweights. We remain on hold as we monitor inflation risk and the vaccine rollout.