

Vantage Point

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

MARKET OUTLOOK: POSITIVE

SECTOR PICKS: CYCLICAL STOCKS WITH EFFECTIVE RECOVERY PLANS AND FORTRESS BALANCE SHEETS, STOCKS WITH LOW VALUATIONS BUT POTENTIALLY STRONG EARNINGS GROWTH IN 2021

TECHNICALS: SUPPORT AT 7500 FOLLOWED BY 6800, RESISTANCE AT 7200 FOLLOWED BY 8000

The PSEi continues its trek higher, albeit at a slower pace. Our daily cases continue to drop every week against a backdrop of vaccines starting to get rolled out across the world. Though we may have not secured a substantial amount of vaccine doses, it seems that our government is in the midst of negotiations with some of the frontrunners, such as Astra Zeneca and Sinovac.

The Senate version of the CREATE bill was also welcomed by investors as it not only reduces the corporate income tax rate immediately, but also includes longer sunset provisions for tax incentives. According to DOF estimates, this will amount to PhP 250 billion in stimulus. Hopefully when CREATE is finally signed into law, it will be very similar to the Senate version.

With only 10 trading days left for the year, it is unlikely that we will be hearing any significant negative news. Thus, we expect the market to trade higher on thin volumes going into yearend. We also do not expect another rate cut from the BSP in its meeting on December 17.

Given the backdrop of dropping COVID cases and a domestic vaccine rollout in 2H21, we think that the market still has room to run in 2021. Though a correction or consolidation is possible in the coming weeks, 2021 is very likely going to be a year of recovery.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Despite rising volatility, the PSEi managed to hold above the 7200 level. While the medium term trajectory is higher, we note that the rally is quite steep. Since we are nearly fully invested, we will remain on hold for now unless opportunities to buy emerge.