

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

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

After attempting to stay above 7000, the PSEi succumbed to foreign selling amidst higher volatility. This can be attributed to a multitude of risks that have significant impact in the short to medium term.

Globally, yields have risen quite sharply in the past 2 weeks. While higher bond yields do not necessarily lead to lower stock prices, the pace at which they rose is a concern as ultra-low rates were one of the main justifications for higher equity valuations. So far, most central banks have remained dovish, but there seems to be a growing consensus that benchmark rates can go no lower.

Sharply rising commodity prices are double-edged. While higher metal prices will benefit the mining industry, stronger oil prices are a bane to net importers like the Philippines. Note that we are 20% away from levels that triggered an inflation scare and suspension in fuel excise tax in 2018.

This feeds into higher inflation which was already above the BSP target range in January. From previous expectations of transient inflation, it seems that we will be seeing at least 6 months of high inflation before it tapers off in 2H21. That will be a significant dampener on consumer spending, economic growth and corporate earnings. With meat prices up 30-40%, fish up more than 50%, and veggies as much as 60%, inflation for the more vulnerable portion of society may well be above 8%.

Unfortunately, the peso strength we relied on to offset higher import costs has now reversed into weakness. As we wrote in our Philequity Corner article yesterday, we may have reached a turning point for the peso with 48 as an intermediate bottom.

Finally, vaccine delays may cause sentiment to deteriorate further. Though the February delays should not have an effect on the 3Q rollout for mass vaccination, it still indicates that we are behind our ASEAN peers in terms of procurement.

All this may have prompted foreign funds to sell the PSEi heavily in the past few days. After pausing for a few days, it seems net foreign selling is back with a vengeance. Until they pause or reverse, it will be hard for the PSEi to stage a sustainable recovery.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Higher yields, inflation risk, a sharply weakening peso, vaccine delays and net foreign selling led to heightened volatility with a downward bias for our stock market. We are keeping a healthy cash buffer as near term risks may take centerstage.