

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

The much awaited first batch of vaccines finally arrived in the Philippines last week. Coming from Sinovac and AstraZeneca, these total nearly 1.1M doses, which is enough to inoculate more than 500,000 of our frontliners. While this is a step in the right direction, it seems that the mass vaccination effort will only start in July.

The timing of vaccinations is especially crucial as the Philippines experienced a sharp spike in COVID-19 cases. While we were able to escape a holiday surge, the current situation is gravely concerning. OCTA Research estimates that we could hit 6,000 daily cases by the end of March if the current surge is sustained. Note also that as of Saturday, NCR quarantine facilities have hit 89% capacity. So far, hospital capacity still has breathing room, but this could quickly change in the coming weeks. The recent surge can be traced both to the entry of the South African variant and less stringent quarantine rules. The DOH has also cited more relaxed behaviour and non-compliance with minimum health standards by the citizenry.

On top of that, we are also seeing elevated inflation. From the BSP's previous expectation of a few months of elevated inflation, they are not expecting it to last until 3Q. This will have a very detrimental effect on our 2021 economic growth, as well as consumer & business sentiment.

Taken together, these point towards more weakness for the stock market. The prospect of a reversion to stricter lockdowns is also a possibility. If that happens, expect a substantial correction in stock prices. Thus, we are keeping high cash levels for now.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The new surge in COVID-19 cases in the Philippines as well as accelerating inflation are cause for concern. We are maintaining a high cash level as this may herald further weakness for Philippine stocks.