

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 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 6800

Last Friday, the Philippines saw its highest number of daily cases at 7,999 with a positivity rate of 15%. With localized lockdowns insufficient to contain this surge, the government was finally forced to impose a blanket lockdown which is similar to MECQ. In our past articles, we flagged this as a high probability near term risk. We expect this to push both economic and corporate earnings recovery into 3Q21. However, this may be what is needed to prevent more infections and deaths, as well as give our hospital system more breathing space.

Sadly, this resurgence came before our mass vaccination program began. While the situation in the next 2-3 months is likely to get worse before it gets better, the longer term trajectory is clearer. We expect mass vaccination to start in 3Q21, with most of NCR's addressable population vaccinated by end-1Q22. Swift implementation and proper execution will be crucial to the recovery of the economy and capital markets.

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Until then though, we may see near term weakness for stocks. In fact, the PSEi has fallen below the 6500 support level. While we are likely to see weakness ahead, this correction may be an opportunity to buy as the COVID-19 situation is likely to improve significantly in 3Q.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



With daily COVID-19 cases reaching a record high, the government finally imposed tighter lockdowns on Metro Manila and adjacent provinces. This will have jarring impact on sentiment, economic growth and corporate earnings, but it is necessary to prevent further infections and deaths. While this will definitely lead to a correction, this weakness may be an opportunity to buy.