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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 7400

After notching 3 straight weeks of gains, the PSEi's stellar recovery may finally take a pause as two major market-moving events came to fore last week.

First is China's aggressive clampdown on commodity prices. In order to address rapidly rising producer price inflation which could eventually feed into the more widely followed consumer price inflation, they announced a raft of measures to bring down metal prices. Among these are the reporting of offshore trading positions in metals and the investigation of any behaviour that leads to higher commodity prices. Moreover, the government will also be auctioning off part of its strategic reserves of copper, aluminum and zinc. This goes to show how determined China is in preventing runaway inflation - a threat to its post-COVID economic recovery.

Second is the Fed's most hawkish statement since Fed Chairman Jerome Powell was appointed, which surprised many investors. While the Fed funds rate remain unchanged, the Fed dot plot showed that the policymakers now expect two interest rate hikes to happen in 2023. Note that in the previous meeting in March, most of the FOMC members projected interest rate hikes would start only in 2024. The Fed also raised its inflation forecast this year to 3.4% from an earlier projection of 2.4%, following last week's CPI figures which was the highest in 13 years.

This led to the unwinding of many positions, especially those that were long commodities, short US dollar and curve steepeners. Nearly all commodities tumbled in the past week, with some erasing most of their YTD gains. The US dollar also had its best week this year when it rose 1.9%. Consequently, the Philippine peso also depreciated sharply, losing 2.1% against the US dollar in just 6 trading days.

'Taken together, these resulted in higher volatility for markets as investors readjust their positioning in light of the Fed's surprisingly hawkish stance. While a correction or consolidation is likely, this may actually be an opportunity to buy if one is still not fully invested as vaccinations will continue to pick up in the coming months. This should hasten the economy recovery of the Philippines.

Philippine Stock Exchange Index (PSEi) 1-year chart

TRADING STRATEGY

The Fed's hawkish stance and China's clampdown on rising commodity prices rippled across markets last week. We expect these to lead to higher volatility and a correction/consolidation for our stock market. However, if you have a long term time horizon, dips may still be used as an opportunity to buy.