

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

Despite a slew of negative news flow in the past week, global markets continued their march higher, with the S&P 500 and Nasdaq both making new all-time highs.

The PSEi likewise maintained its strength despite its steep rally as it consolidates below the crucial 7000 resistance level. The arrival of more vaccines as well as the increasing inoculation rate continues to feed bullishness in our stock market. The latest 7-day average of daily inoculations is already at 230,000 - more than 6x what it was in the 1st week of May. With the participation of the private sector a month from now, this may speed up even further.

Note that our steep ascent slowed down as foreign selling also returned, albeit in moderate amounts unlike what we saw in previous years. That said, even a little net foreign buying can push our market higher, as we say in the 1st 2 weeks of June. The weaker peso also failed to dent sentiment in equities despite its sharp depreciation.

What we have to be vigilant about are oil prices and the Delta variant. As commodities recovered from a China and Fed-induced selloff, we are concerned about rising oil prices and their impact on inflation and domestic consumption. We note that the Dubai crude benchmark is very near the price range that triggered a pause in fuel excise taxes and an inflation scare in 2018.

More importantly, new surges in many countries due to Delta variant is very concerning. Thus, our government must remain vigilant in maintaining border control and implementing contact tracing and quarantine procedures. This is the only way we can prevent the more contagious Delta variant from wreaking havoc on our country and causing another hard lockdown.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



No deep correction in sight for the PSEi as it consolidates right below the psychological 7000 resistance level. Though net foreign buying has tapered off, good news on the vaccine front has underpinned our stock market's strength. However, we are wary of the Delta variant which has caused surges in countries which previously had the epidemic under control.