

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 7400 FOLLOWED BY 7600

Concerns over the Delta variant have led to jitters across the different asset classes. Equities corrected last week, though the US rebounded at the end of the week, notching a new all time high. As far as equities are concerned, the US stock market continues to lead the pack. As for bonds, yields have dropped sharply as growth concerns have replaced inflation fears. US 10-year Treasuries now yield 1.35% from a high of 1.77% in March.

On the FX side, the US dollar continues to gain strength. In fact, the peso has depreciated 5% over 4 weeks and has broken the crucial 50/\$ level. Chartwise, this parabolic downmove indicates further weakness. While peso weakness is not inherently a bad thing, the speed at which the currency lost ground against the US dollar is a concern. Not only will imports and dollar debt servicing become more expensive, but stocks are also likely to weaken as foreign funds take a mark-to-market hit on their holdings. On the other hand, recipients of OFW remittances are beneficiaries of this weakness, as well as BPOs as they become more competitive in terms of cost.

This may be one of the reasons behind the pick up in net foreign selling last week. Moreover, JP Morgan also released a research report saying that the Philippines is among the 5 most vulnerable EM countries to the Delta variant. The other 4 are Colombia, Peru, South Africa and Thailand. Thus, our government must be even more vigilant in ensuring that no community spread of the Delta variant occurs in our country.

Due to the lack of near term catalysts and jitters brought about by resurgences abroad, value turnover has fallen significantly, with the daily traded volume just between PhP 4 and 5 billion versus the pre-COVID average of PhP 7.5 billion.

With cash levels already quite low, we will remain on hold for now and wait for more catalyst before increasing equity exposure further.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



After failing to convincingly break the crucial 7000 resistance level, the PSEi fell by 2.4% last week. Though the US continues to make new highs, surges caused by the Delta variant bears watching. We remain on hold for now.