

# Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF PHILEQUITY MANAGEMENT, INC.

## MARKET OUTLOOK: BULLISH

**SECTOR PICKS:** CYCLICAL STOCKS WITH EFFECTIVE RECOVERY PLANS AND FORTRESS BALANCE SHEETS, STOCKS WITH LOW VALUATIONS, COMPANIES WITH LESS DOMESTIC EXPOSURE

**TECHNICALS:** SUPPORT AT 7000 FOLLOWED BY 6500, RESISTANCE AT 7400 FOLLOWED BY 7700

Last Monday, all 3 major US equity indices notched record closing highs as investors cheered Fed Chairman Jerome Powell's dovish taper. However, recent inflation data gave investors some jitters, leading to a minor pullback.

In fact, the 6.2% October inflation in the US was the highest in 31 years. While inflation does accompany growth, too much inflation will lead to demand destruction. It remains to be seen if this is transitory or not, but this is a major risk that central bankers, fund managers and economists are closely monitoring.

On the bright side, the high efficacy of Pfizer's COVID pill is yet another way out of this COVID era. Recent trials indicate that it has 89% efficacy in preventing hospitalization, much higher than Merck's Molnupiravir. If an effective and easy-to-drink cure can be made commercially available, it may well be the final nail in the coffin of the COVID-19 pandemic

As we mentioned in our previous article, MSCI rebalancing will lead to more volatility for Philippine stocks. While the entry of ACEN seems to be widely expected, the inclusion of MONDE in the main index and AREIT, FILRT & LTG in the small cap index was not. This should lead to some rotation out of index names into these new inclusions.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



With US markets making new record highs last week, we expect most equity markets to remain strong, including the Philippines. However, we are wary of inflation, especially after the US recorded its highest monthly figure in 31 years. For now, all eyes are on political developments so we remain on hold for now.