

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 7000 FOLLOWED BY 6500, RESISTANCE AT 7400 FOLLOWED BY 7700

Day after day, the Philippines sees a new record for daily COVID-19 cases. While this will have a significant impact on productivity in 1Q22, there is reason to hope. More than 99% of cases are asymptomatic to moderate, hospitalizations and deaths remain low, and the reproduction rate is going down. Data indicates that NCR may be approaching a peak in daily cases. Sadly, other parts of the country have just begun to experience surges.

Thus, while Omicron may sour sentiment a bit, we do not expect it to lead to a deep correction. However, it still calls for some caution.

As far as stock prices are concerned, we are more worried about the move in global markets, crude oil and interest rates. With the Fed set to raise rates 3 times this year, the BSP's decision to stand pat in 1H22 will lead to a widening interest rate differential. Ceteris paribus, this will cause the peso to depreciate and stock prices to weaken.

Global stock markets are reflecting this concern, with high valuation tech stocks plummeting in the past weeks as investors rotate to value stocks and cyclical plays with positive cash flow.

Our oil benchmark, Dubai crude, is also back to levels that triggered a pause in excise tax implementation in 2018. It is also more than 10% above the BSP's projection for average price in 2022. Any inflation overshoot will harm our economy, especially given the fragility of household balance sheets.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Global markets remain volatile as Omicron still surges, albeit at a slower pace. Unfortunately, crude oil continues to rise. We remain on hold for now.