

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 6800 FOLLOWED BY 6500, RESISTANCE AT 7000 FOLLOWED BY 7400

For the first 2 months of the year, the PSEi was among the best performing stock markets in the world as it remained in the green despite double digit drops for other major markets. However, with commodity prices remaining elevated, the PSEi finally gave way and followed the rest of global equities downward. Unfortunately, the selloff was quite sharp. On March 8 and 14, the PSEi lost more than 4%, erasing all the YTD gains and more. This happened on the back of net foreign selling in excess of PHP 2 billion over the past week.

Commodity prices are also in turmoil. While oil and agricultural prices have pulled back from their highs, they are still elevated. Oil and wheat, the 2 commodities at the centerstage of the Russia-Ukraine conflict, are still up 40% YTD. Corn and soybeans up 20% YTD, while nickel trading on the LME is still closed after nearly tripling. This will feed into food prices, driving inflation higher. For a country like the Philippines whose GDP is 65% domestic consumption, this may be a significant growth headwind.

Thus, the path towards higher interest rates is fraught with risk. With the chance of a policy mistake for central banks or a miscalculation in the Russia-Ukraine conflict no longer zero, we remain very cautious.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



After remaining relatively resilient in the past weeks despite the Ukraine conflict and rising commodity prices, the PSEi finally fell with a vengeance. We remain on the sidelines for now as the market continues to price in inflation and growth risk amidst all this uncertainty.