

# 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 7200 FOLLOWED BY 7400

Last week, Fed Chairman Jerome Powell all but guaranteed a 50-bp rate hike next month. This sent US markets sharply lower, with the S&P 500 losing 4.3% over 2 days. Chinese stocks were hit by a double whammy of COVID restrictions and rising rates, causing the CSI 300 to plunge 6.1% last week.

So far, the PSEi remains relatively resilient and was still marginally in the green last week. However, if US and China stocks continue to plummet, it is likely that Philippine equities will follow suit.

Unfortunately, we have yet another even that serves to fan the flames of inflation. Just last week, Indonesia decided to ban all exports of palm oil starting April 28. With Indonesia accounting for more than 50% of palm oil exports, sharply higher prices can be expected as long as the ban is in place. Other substitute vegetable oils are also rising in price. Note that Ukraine is also a significant exporter of sunflower and rapeseed oil, supply of which was curtailed due to the ongoing war. We are concerned that commodity exporters may resort to food protectionism to insulate their own economy on inflation. Indonesia itself admitted that this measure will be "painful for other countries" but is also "necessary". Prolonged and high inflation is a major growth headwind for a net importing country like the Philippines.

Given these developments, we opt to remain on the sidelines for now and maintain our cautious stance.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



Concerns over a rapid rise in interest rates at a time when growth is threatened by rising inflation have caused global markets to drop sharply. This may cause the PSEi to weaken as well. Thus we maintain our cautious stance.