

Vantage Point

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

MARKET OUTLOOK: CAUTIOUSLY 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 6500 FOLLOWED BY 6200, RESISTANCE AT 6800 FOLLOWED BY 7000

The longest losing streak for the Dow Jones index since the 1920s has finally ended with a bang. After losing 11% over 8 weeks, the Dow Jones index bounced back with a vengeance and gained 6.2% last week. The S&P 500 and Nasdaq are also showing signs of bottoming. As we said in our Philequity Corner article published on May 30 - "perhaps, we have seen the bottom when we sighted the bear last May 20 as the S&P 500 hit an intraday low of 3,810.32. This may be the start of a bottoming out process that gives birth to a new bull market " Strength in the US will lift all equity markets, including the Philippines.

On the domestic front, the choices for the incoming government's economic team was a pleasant surprise. Felipe Medalla replaces Ben Diokno as BSP and will serve the unexpired term. Diokno then moves to the DOF, while Alfredo Pascual will head DTI. Arsenio Balisacan is also making a comeback, but this time as NEDA head. These appointments were lauded and welcomed by the business community.

Still, despite all the good news, we have to watchful as we are not yet out of the woods. The main risks now are a Fed mistake and a potential recession in the latter part of the year. While inflation seems to have peaked, it still remains stubbornly high. If current economic conditions worsen and a recession does come to pass, then it is possible that the recent bottom may be breached.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



After 8 straight weeks of falling, US markets are finally stabilizing. This coincides with the announcement of a capable and credible economic team. The recent volatile swings may be part of a bottoming process. Those with cash and courage may use this opportunity to increase equity exposure.