

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 6200 FOLLOWED BY 6050, RESISTANCE AT 6500 FOLLOWED BY 6800

The much-awaited US rate hike was finally announced, with Fed Chairman Jerome Powell deciding to bring the benchmark rate to 2.25-2.50% via a 75-bp increase. This is the fastest pace of tightening since the 1980s.

While markets did expect rates to rise significantly, the move after the announcement surprised many investors. On the day of the announcement, the Nasdaq gained 4.3% while the S&P 500 rose 2.6%. Despite Powell indicating that there are still rate hikes to come and that decisions will be data dependent, investors cheered Powell's offscript comment that interest rates are at "neutral" already. Combined with clear signs that inflation has peaked, many economists are saying that a Fed pivot might be coming soon.

If the Fed does pause its tightening earlier than expected, it may allay fears of the Fed accidentally triggering a recession. This may also cause the dollar to weaken, reducing pressure on EM currencies, including the Philippine peso.

Interestingly, bonds also gained despite rising rates. From its high of 3.47%, US 10-year Treasury yields are now at 2.69%. We see the same behavior in the current 10-year Philippine government bond - from 7.06% in June, the yield is now 6.25%.

With markets rising on bad news and major US stocks making higher lows, there are indications that we may have seen the bottom in stocks. What we have to monitor now is the health of the global economy. The magnitude and duration of the coming slowdown / recession may well determine if equities have bottomed or not.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Despite yet another jumbo 75 bps hike from the Fed, markets cheered as it seemed that interest rates are getting close to neutral. Strength in the US stock market should eventually lift all markets, including the Philippines. Those with high cash levels may cautiously buy on dips.