

VANTAGE POINT

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

EQUITY OUTLOOK

MARKET OUTLOOK: CAUTIOUS

SECTOR PICKS: CONSUMER NAMES, STOCKS WHICH BEAT EARNINGS FORECASTS, COMPANIES WHICH DERIVE A LARGE PORTION OF THEIR INCOME FROM FOREIGN SOURCES

TECHNICALS: SUPPORT AT 6500 FOLLOWED BY 6200, RESISTANCE AT 6800 FOLLOWED BY 7000

Local equities continue to be pressured by higher interest rate expectations and a strengthening US dollar. Approved price increases also indicate that Philippine inflation has yet to peak as food prices continue to inch higher. On top of that, recent rebalancing exercises resulted in net foreign outflows which caused certain stocks to weaken significantly.

Fortunately, Philippine stocks and the peso may get some respite this week as Atlanta Federal Reserve President Raphael Bostic said that "he thinks the Fed can keep its interest rate hikes to 25 bps" rather than the 50 bps rate hikes that other Fed members are recommending. These comments caused US equities to turn from red to green on Thursday night. If there is more positive follow through from US equity prices, this may lift Philippine stocks as well.

However, with Philippine stocks giving up almost all their gains for the year, we note that some opportunities to increase equity exposure are emerging. Those with high cash levels and underweight positions in equities may use weakness to buy selectively.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY

Dollar strength and higher interest rate expectations are dampening sentiment in Philippine stocks. However, after 6 straight down weeks, value is starting to emerge for some names.



BOND OUTLOOK

**MARKET OUTLOOK:
DEFENSIVE**

TRADING STRATEGY

As markets adjust their outlook to a Fed with rates being "higher for longer", bonds will most likely remain under pressure and follow where the 10y UST goes. The PH bond space has its own inflation problems to deal with with inflation also jumping higher. Despite most investors awash with cash, we would prefer to stay on the sidelines for now.



Market is turning defensive, with bid offer spreads turning wider and market activity dwindling in anticipation of key CPI figures coming out next week. BSP has already given guidance that the inflation number could breach 9% for February and that they may have to do more to curb the rise in prices. Meanwhile, most comments from the Fed suggest that "higher for longer" is probably the base case. Data suggests that inflation is still running at a high pace as well in the US.

Currently, the 10y UST benchmark has already reached 4.07%, a rise of more than 20bp for the week. We also saw a reissue of 6yr bonds awarded at the higher end of expectations at 6.173%. In the dollar bond space, there are rumors of an upcoming Retail Dollar Bond issuance, which may also sap some demand.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of 3 March 2023
1M	4.4888
3M	4.6050
6M	5.2772
1Y	5.6568
2Y	5.7287
3Y	5.8578
4Y	5.9900
5Y	6.1124
7Y	6.2856
10Y	6.4627
20Y	6.7493
25Y	6.7615



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