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VANTAGE POINT

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

EQUITY OUTLOOK

MARKET OUTLOOK: NEUTRAL

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

TECHNICALS: SUPPORT AT 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 6800

Aggressive action by central banks and regulators around the world seem to have stemmed deposit outflows and brought relative calm to markets. Though volatility still remains elevated and liquidity is low, US equity indices have actually made back almost all their losses since the banking crisis started.

Unfortunately, this is not the case for Philippine stocks. Our benchmark index was down for 9 of the past 10 weeks and is stuck at 6500, a significant support level. After being one of the best performers to start the year, the Philippines is now in the red. We note that its ASEAN neighbours are likewise down for the year as well.

With recession risk rising, investors seem to be flocking to safer and more liquid markets, i.e. the classic EM to DM trade. The only saving grace for EM is broad dollar weakness. This has allowed the peso to appreciate by 2.1% YTD and stay below the crucial 55/$ resistance level. If the peso can continue appreciating, it will eventually lift Philippine equity prices.

With the Philippine market already dropping significantly over 2 months, value has emerged once again. Those who are underexposed to equities may use this opportunity to buy selectively.

Philippine Stock Exchange Index (PSEi) 1-year chart

TRADING STRATEGY

With the Fed reducing its terminal rate, the US dollar weakened and global markets rallied, albeit with high volatility. Unfortunately, the PSEi has underperformed in the past 2 months. For those with elevated cash levels though, this may be an opportunity to buy high quality names.

BOND OUTLOOK

MARKET OUTLOOK: **CAUTIOUS**

TRADING STRATEGY

Continue to be cautious as market is now shifting back to normal, as it seems that the banking crisis news has been digested and that a systemic breakdown has been averted. Equity markets seem to suggest that the fear has died down, and we should see the flight to safety trade unwind as well. This would mean that we see short term rates start to rise and longer end bonds outperform.

With much of the news of banks collapsing being digested and hopefully behind us, markets are now looking forward again to a more normal outlook. However the market is optimistic that the recent movements has given the Fed room to slow down the pace of hikes or even to start cutting rates sooner rather than later. We have already seen the 10y UST stabilize at around 3.50. We would just be cautious as the market is shifting back to being bullish, so the flight to safety trade to treasuries would reverse, causing yields to move higher, though probably more so in the shorter end.

In the local bond space, the April borrowing program came out, with not a lot of supply in the longer end. This prompted end users to pick up long dated bonds. BSP has also pointed out that they would now be data dependent when deciding on future rate hikes, if any. One thing to look out for is a new Retail dollar bond which may be priced in the second week of April.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of 31 March 2023
1M	4.648
3M	5.0501
6M	5.6771
1Y	6.0287
2Y	5.8489
3Y	5.8812
4Y	5.9186
5Y	5.968
7Y	6.094
10Y	6.2155
20Y	6.5556
25Y	6.5631