

# VANTAGE POINT

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

## EQUITY OUTLOOK

**MARKET OUTLOOK: NEUTRAL**

**SECTOR PICKS: CONSUMER, FINANCIAL 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**

The Philippines has finally reached peak interest rates. With BSP Governor Felipe Medalla announcing a "long pause" for rate hikes as well as potential RRR cuts in the future, our policy tightening cycle has come to an end. This should help reduce the impact of higher rates on economic growth, especially if a major economy experiences a recession later in the year. By most indications, the US may also have reached peak interest rates, though some Fed members are saying that one more hike may be necessary.

With this pause, the interest rate differential with the US is down to 125 bps, but still close to the ideal range of 150-200 bps. This should help stem the recent weakness of the Philippine peso. A key risk for the currency would be a widening interest rate differential via another rate hike by the Fed or a premature rate cut by the BSP.

Strength in the US stock market should put a floor on stock prices in the interim, the Philippines included. If it were not for MSCI rebalancing, our stock market may actually have showed strength in the past week. For those with cash, any weakness brought about by these flows may be an opportunity to buy.

**Philippine Stock Exchange Index (PSEi) 1-year chart**



### TRADING STRATEGY

With the BSP signalling a long pause, it seems that we have hit peak interest rates for both the Philippines and the US. Recession aside, this may indicate a positive trajectory for stock prices over the medium term. Corrections may be an opportunity to buy.



# BOND OUTLOOK

**MARKET OUTLOOK:  
POSITIVE**

**TRADING STRATEGY**

BSP does as widely expected and pauses for now, saying that inflation will return to its target range in the 4Q. However the pause is considered a prudent pause, as the BSP says that they can resume hiking anytime if inflation shows that it is rising again. We think that overall, levels have levelled off for now and would like to wait for a bit of a dip before buying again, but yields may not correct as much as before as there is still a lot of demand coming in for yield, especially on the longer end of the curve.

With the BSP and Fed decisions now out of the way, market will now have to look elsewhere for direction on where yields will go. With no new developments on the horizon, market took this as an opportunity to take a little profit given that yields have already fallen around 15bp from last weeks levels.

However, any correction this time seems swiftly taken up by unfilled demand coming from end users, who are eager to load up especially on the longer end of the curve, most likely trying to lengthen the duration of their portfolios.

Looking ahead, there is still the issue of the US debt ceiling not being raised, which would essentially bring the US into default. Though no one is expecting that to happen, it is still a risk nonetheless. US treasuries have been rising as signs in the US show that inflation is indeed very sticky, especially wage inflation.



**PHP BVAL Reference Rates – Benchmark Tenors**

Tenor	BVAL Rate as of May 22, 2023
1M	5.6979
3M	5.823
6M	5.9062
1Y	5.9514
2Y	5.7961
3Y	5.7231
4Y	5.6756
5Y	5.6495
7Y	5.6809
10Y	5.7903
20Y	5.8406
25Y	5.8229

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