

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

After rallying on the prospect of interest rates finally peaking, equity indices took a breather as the US debt ceiling issue remains unresolved. Fitch even put the US credit rating on negative watch, meaning a downgrade is now possible. This led to risk-off behaviour for many institutions, which weighed on stocks.

1Q23 corporate earnings in the Philippines are practically done. While some companies did stand out, growth on a broad basis could have been better. Outside of banks, there was no sector that clearly did well. In fact, the property sector did poorly, especially on the office and residential side. With most of the benchmark index composed of banking and property stocks, as well as their respective conglomerates, our market barely rose as the weakness in other stocks offset the strength in banks. If the last bastion of strength, bank stocks, eventually weaken, the PSEi may retest the 6500 support level.

Until the debt ceiling issue is resolved, we see another flight to safety trade unfolding in the near term. This means that large caps will underperform small caps as investors flock to the most liquid and safest corporate. For those who want to buy on dips, buying quality may be the safest bet.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY

Concerns over the US debt ceiling and weakening growth in developed markets are rattling emerging market stocks, including those in the Philippines. Combined with low liquidity, we see more volatility and weakness in the near term. A major catalyst is needed to resuscitate the PSEi.



BOND OUTLOOK

MARKET OUTLOOK:
NEUTRAL

TRADING STRATEGY

Since yields have come down significantly over the past few weeks, and we don't really have any big news coming up, most likely we will see a consolidation and some dealers looking to take some profits. On the local bonds, for now yields have hit a floor around the 5.8 level and it may look like yields will bounce back to close to the 6% figure. Anything above this level would be attractive considering that inflation is targeted to average around 5.5% for 2023, according to the BSP.

Local bond yields have already hit bottom for now, but this is probably only a momentary breather as players wait for new developments. For now, most are just waiting and watching what the US will do on the debt ceiling. If no new deal is done to raise the debt ceiling, the US will default on its debt. Though this is still a farfetched idea, the closer we get to the deadline, the more nervous people become.

Meanwhile, we also got the auction schedule for June, which shows a relative scarcity on the belly to longer end of the curve. Overall we would be waiting for better levels, around the 6% figure, but will be eager to scale into any selling pressure.

10y UST is at 3.82 while local bond 10y is now at around 5.9, which is still a decent yield pickup. Inflation also likely has peaked and the US is showing signs that fears of a recession are overblown. So there is a chance where we could enter a goldilocks scenario again, where economic activity is still growing and inflation is contained.



PHP BVAL Reference Rates – Benchmark Tenors

| Tenor | BVAL Rate as of May 29, 2023 |
|-------|------------------------------|
| 1M | 5.8115 |
| 3M | 5.79 |
| 6M | 5.8632 |
| 1Y | 5.8961 |
| 2Y | 5.8433 |
| 3Y | 5.787 |
| 4Y | 5.7606 |
| 5Y | 5.7603 |
| 7Y | 5.8208 |
| 10Y | 5.9397 |
| 20Y | 5.9923 |
| 25Y | 5.9814 |



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