

# 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 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 6800**

For weeks now, concerns over the US debt ceiling limit were top of mind. Government officials highlighted the need to raise the ceiling in order to avert a potential default, which would have a catastrophic impact on US bonds and equities. Fortunately, after tense negotiations, leaders of the Democrat and Republican parties were able to iron out a debt ceiling deal that was acceptable to both sides. These eventually passed the House of Representatives, with the approval of the US Senate as the last hurdle.

Sadly, this was unable to lift the PSEi which faced significant outflows from MSCI rebalancing. Not only as MONDE removed from the MSCI Philippines index, but the Philippines received a country downweight as well. Unless foreign inflows come back for a prolonged period of time, the Philippines will become more and more marginalized as foreign ownership declines.

As a result of this, the PSEi fell below the 6500 support level. Even the previously formidable bank stocks gave way as locals seemed to have limited ammunition to absorb the sell flows. Still, for those with cash, this creates opportunities to buy quality index stocks that were sold down just because of passive flows.

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



### TRADING STRATEGY

With recession fears taking the back seat and the US debt ceiling limit close to reaching a positive conclusion, global markets were starting to gain their footing. Unfortunately, MSCI rebalancing weighed on Philippine stocks. Weakness in high quality names may be an opportunity to buy.



# BOND OUTLOOK

**MARKET OUTLOOK:  
NEUTRAL**

**TRADING STRATEGY**

Now that the US debt ceiling issue has been resolved, we look towards the next inflation data. We would like to wait and see if indeed inflation is coming down in the Philippines, as BSP has already indicated it sees CPI posting a lower figure for May. In the US it is looking more likely that the Fed will have a pause in its next rate setting meeting, even if inflation there seems sticky.



Last week, the US house of representatives passed the debt ceiling bill to the Democratic controlled Senate, and is very likely to be passed there as early as Monday. This will at least avoid any such occurrences like this for 2 years down the road, when US debt will have reached the ceiling again. With this major development out of the way, we saw markets looking more towards what the Fed will do again on inflation.

10y UST came down to 3.62 as the likelihood of a rate hike in the next rate setting meeting has come down from a 60% chance to a 30% chance. There were some Fed speakers that said that a pause would probably be a prudent thing to do even if inflation is proving to be quite sticky, especially wages.

Meanwhile, we are expecting inflation in the Philippines to come in around 5.5-6.5% according to the BSP, which would continue the downtrend we have experienced over the past few months. Local bonds hit as high as close to 6% on the 10y and longer, but after a good 10-69 reissue at an average of 5.95, buyers took the opportunity to load up again. We now have the 1069 trading at around 5.8.

**PHP BVAL Reference Rates – Benchmark Tenors**

Tenor	BVAL Rate as of June 05, 2023
1M	5.7608
3M	5.7657
6M	5.963
1Y	5.9314
2Y	5.8646
3Y	5.7971
4Y	5.7563
5Y	5.7394
7Y	5.777
10Y	5.8375
20Y	5.8745
25Y	5.8578



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