

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

With the US debt ceiling resolved, markets seem to be ignoring recession risks once again. Despite news of Europe entering a technical recession, DM equities have continued to march higher, especially in the US where AI stocks are up as much as triple digits YTD.

Philippine Stock Exchange Index (PSEi) 1-year chart



Domestically, the BSP cut RRR by 250 bps to 9.5%. This is should significantly boost liquidity in the future, assuming loan growth picks up. Thus, a global recession or slowdown is a concern. Unfortunately, this move only lifted banking stocks. By and large, Philippine stocks are stagnating on low volume, with some index heavyweights even breaking critical support levels this week. Foreign selling is sometimes heavy even when trading volume is light.

If it were not for strength in some banking stocks, the PSEi would have ended the week below the 6500 support. Still, we believe dips are an opportunity to buy high quality names. FTSE rebalancing next week may provide this window.

TRADING STRATEGY

With many near term risks getting resolved alongside the rise of AI stocks, some global equity indices reached YTD highs last week. Unfortunately, this has failed to lift the Philippine stock market which is still suffering from foreign outflows. We hope that strength in global equities will eventually lift the PSEi out of this rut.



BOND OUTLOOK

**MARKET OUTLOOK:
NEUTRAL**

TRADING STRATEGY

This week will likely be a continuation of what we saw previously, with bond yields seemingly having hit a bottom for now as traders are keen to lock in profits. This is natural given that yields have already come down significantly. However we do see that the 6% level is a support area, with lots of demand ready to pick up whenever the belly to long end yields come close to that figure. We will most likely stay on the sidelines and slowly pick up around 6% also.

Now that much of the key data points are already out, with May inflation coming out lower at 6.1% as expected, traders are using this as an opportunity to sell on news. However, after trading hours on Thursday, BSP announced a 250bp cut in the Reserve Requirement, releasing as much as 325bn pesos in liquidity into the market.

However some of this will naturally flow into tbills, and the new 51d BSP bills. However, this liquidity will likely make the 6% level for local bonds even more of a strong support.

It looks like 10y UST in the US has hit a high of 3.8 for now also, though inflation does look like it is still with a risk to the upside. Most are already seeing the Fed to pause for now, which should keep rates in a range going forward.



PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of June 12, 2023
1M	5.8077
3M	5.8631
6M	5.9009
1Y	5.9482
2Y	5.901
3Y	5.8428
4Y	5.8156
5Y	5.8127
7Y	5.8519
10Y	5.909
20Y	5.9437
25Y	5.9325

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