August 21, 2023

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

The PSEi lost ground for the 4th straight week as a mix of domestic and global risks peppered the market. After yields and the US dollar spiked, below forecast 2Q23 GDP weighed on the market. The miss was significant not just because of how far it was from expectations, but also because of the significant slowdown in domestic consumption and government spending.

Negative news on SMPH and AC also dragged the index, especially given that these are heavyweights. Even banks which beat earnings forecasts succumbed to profit taking, while some stocks made new all-time lows. Still, PSEi ended last week at 6290.

A new but known risk is the implosion of China's shadow banking sector. Deeply intertwined with the real estate sector, it was a matter of time before asset managers tumbled. Zhongi Enterprise Group, with AUM of $137 billion, stopped making payments on wealth management products. As one of the biggest players in the shadow banking industry, China acted quickly to ringfence the damage. Still, with huge property developers like Country Garden teetering on the edge of bankruptcy, this may just be the beginning. Unfortunately, what is bad for China is bad for emerging markets. Thus, we expect the PSEi to weaken in the short term as money flows out of China and other EMs. While this may create an opportunity to buy, one has to be very cautious and selective.

Philippine Stock Exchange Index (PSEi) 1-year chart

TRADING STRATEGY

With the recent bankruptcies and credit issues in China, emerging markets as a group weakened. Philippine stocks continued to fall as foreign outflows accelerated. The BSP's hawkish pause helped the currency but offered no succour to equities. We will remain on the sidelines for now.

BOND OUTLOOK

MARKET OUTLOOK: **DEFENSIVE**

TRADING STRATEGY

10y UST continues to climb, with the yield now hitting as high as 2.35%, the highest levels since 2007, as strength in the US and sticky inflations are causing concern that the Fed may have to do more. We remain defensive as we wait and see whether this rise in UST yields will have an effect on local bond yields and could provide an opportunity to pick up at more attractive levels.

A surprisingly low 2Q GDP number shows that Philippine growth sharply decelerated, on the back of consumers getting tired of revenge spending, but mostly because of slower government spending. This makes the job of BSP trickier, needing to balance a slowing economy, but keeping a watch on inflation pressures, which are rising with rice and oil prices remaining elevated.

In its meeting last week, BSP made a "hawkish pause" and most people believe that BSP will maintain this stance for the rest of the year.

We believe that currently the market will probably languish at these levels with no real leads to follow.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of August 21, 2023
1M	5.7138
3M	5.7649
6M	5.9996
1Y	6.3285
2Y	6.2707
3Y	6.2849
4Y	6.2851
5Y	6.2929
7Y	6.3815
10Y	6.5527
20Y	6.6839
25Y	6.6999