

WANTAGE POINT

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

EQUITY OUTLOOK

Market Outlook: Neutral
Sector Picks: Index heavyweights, Stocks which beat earnings forecasts, Companies which derive a large portion of their income from foreign sources
Technicals: Support at 6700 followed by 6400, Resistance at 7000 followed by 7400
Trading Strategy: Above forecast US inflation figures further reinforced the hawkish tilt of US Fed members. Dollar strength and rising oil prices are both negatives for Philippine stocks. We will exercise caution for the time being.

Hawks just got more ammunition for their stance. With US March inflation reaccelerating on the back of rising oil and home prices, market participants are finally seeing what the Fed members were warning us about – sticky inflation. This is a sharp contrast to the situation in the EU where inflation is coming. ECB President Christine Lagarde's statement was as dovish as it could get when she said that "it would be appropriate to reduce the current level of monetary policy restriction."

This "loud and clear indication" from the ECB likely cutting ahead and more than the US Fed sent the US dollar higher against almost all currencies. At 56.50/\$, the peso is getting dangerously close to the BSP's line in the sand of 57. A weak peso is never positive for Philippine stocks.

With rates set to stay higher for longer, Philippine growth forecasts were downgraded as the BSP indicated that the first rate cut is moved to 4Q24. This statement helped stem the peso's recent depreciation.

Foreign buying has also reversed into foreign selling. Interest rate sensitive sectors such as property are also underperforming as a sustained recovery in property demand will likely be delayed. Since the PSEi is heavy on property stocks and their parent companies, this offset the strength in banks and dragged the benchmark index lower.



BOND OUTLOOK

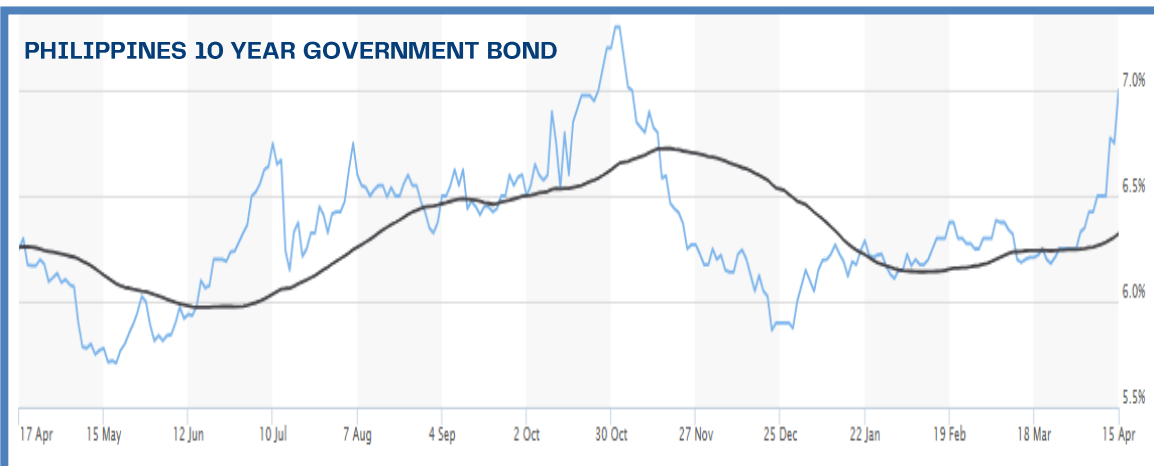
Market Outlook: Defensive
Trading Strategy: We remain on the defensive as yields have backed up considerably, now that it seems even the June Fed rate cut may be off the table. This change in view comes from recent hot inflation and jobs data in the US. With the 10y yield jumping 20bp, local bond yields follow suit. We look to remain on the sidelines but if rates inch up a bit more, it may be an opportunity to scale in, since we are still looking at a cut eventually, but it has just been postponed.

With traders giving up on June as the first time the Fed will cut rates, we saw bids being given quite considerably in the local bond market. The new RTB 5-18 was hit all the way to 6.65 from its coupon of 6.25. This is already very attractive and is most likely a move because banks stop loss limits were hit and they needed to reduce their holdings. The 9y 1069 was also given at 6.7 and the 1071 at 6.75. Rates seem to be holding here and are starting to get attractive.

We look to remain cautious though as inflation in the Philippines will most likely continue to creep up during the summer months. We may also see a delay to 2025 for the first BSP rate cut, while a Fed rate cut may happen in September of this year.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of April 15, 2024
1M	5.7534
3M	5.7909
6M	5.9193
1Y	6.0385
3Y	6.3850
5Y	6.5630
10Y	6.7309



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