

ADVANTAGE POINT

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

EQUITY OUTLOOK

Market Outlook: Cautious
Sector Picks: Index heavy weights, Stocks which beat earnings forecasts, Companies which derive a large portion of their income from foreign sources
Technicals: Support at 6400 followed by 6200, Resistance at 6700 followed by 7000
Trading Strategy: After bouncing off the 6400 support level, the PSEi is headed back down as foreign selling intensifies despite lower trading volume. Nimble traders may use weakness as an opportunity to buy.

The Philippine stock market continues to find its footing. Though support of 6400 held strong, resistance of 6700 proved to be difficult to break as well. A consolidation between these 2 levels is a possible scenario for the PSEi over the medium term.

With 1Q24 earnings coming in, many of the large cap companies are beating earnings forecasts, although we note that these are downgraded forecasts. Banks continue to show strength. Property is improving, although weakness is still evident. Weakness in the consumer sector is evident in related stocks. Below forecast 1Q24 GDP also shows this, along with lackluster government spending. The lack of any significant positive development combined with these dull results caused foreign funds to net sell our market.

Still, with valuations already at multi-year lows, there is margin of safety when buying quality names on dips. While we are hesitant to chase rallies, we are still selective even when buying on dips. We expect divergent price performance on the bank of 1Q24 earnings, with any broad market movement to be driven by global macro news, especially on the interest rate front.

Philippine Stock Exchange Index (PSEi) 1-year chart



BOND OUTLOOK

Market Outlook: Neutral
Trading Strategy: Markets seem to have digested news over the weekend that inflation is not as bad as feared, and views that a Fed rate hike was necessary seem overblown. 10y USTs have eased off from their highs, now settling at around 4.4 again. Local bonds have followed suit as well, rallying around 30bp before profit taking ensues.

With local bonds rallying so much after hitting highs of 7% on the 7yr, fears now seem overblown and demand is coming back in. We believe any levels close to 7 would be a good entry point, and that this week will most likely see some more profit taking to drive yields back up to around the 6.8 area on the 10yr. This would be an attractive level already to scale in, though inflation may still be a risk, especially with the el-nino causing rice prices to continue to soar.

PHILIPPINES 10 YEAR GOVERNMENT BOND



PHP BVAL Reference Rates Benchmark Tenors

Tenor	BVAL Rate as of May 10, 2024
1M	5.6807
3M	5.7818
6M	5.9081
1Y	6.0751
3Y	6.4871
5Y	6.6053
10Y	6.8512

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