

ADVANTAGE POINT

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

EQUITY OUTLOOK

Market Outlook: Neutral
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: The PSEi is attempting to make higher lows despite dismal foreign flows and potential outflows due to rebalancing. Significant strength in selected stocks is keeping the market afloat despite a weaker peso. US indices made new record highs this week, which is contributing to positive sentiment. To outperform in this market, one has to be selective and nimble.



The index bounced of support yet again as property and telco stock prices appreciated. This more than offset weakness in index heavyweights the past week. All told, the PSEi gained 1.64% in the past week.

This comes on the heels of US indices making new all-time highs this week, with the Dow Jones index touching 40,000 for the first time in history. We note that the bull market in US stocks is broadening into other sectors, not just tech. This broadening should eventually lead to strength in emerging markets, including the Philippines.

The PSEi may have performed better if it were not for dollar strength. BSP Governor Eli Remolona Jr.'s statement that the BSP "is somewhat less hawkish than before, which means we could ease rates Q3 or Q4 this year" may also have contributed to the peso's weakness this week. Still, if the BSP moves in lockstep with the Fed, it should have a neutral effect on the currency.

With 1Q24 earnings mostly out, we note that growth is in the double digits, although the forward guidance for some stocks remains murky. Until such point that corporates can show a clear growth runway, it will be difficult for the PSEi to trade at significantly higher multiples.

Philippine Stock Exchange Index (PSEi) 1-year chart



BOND OUTLOOK

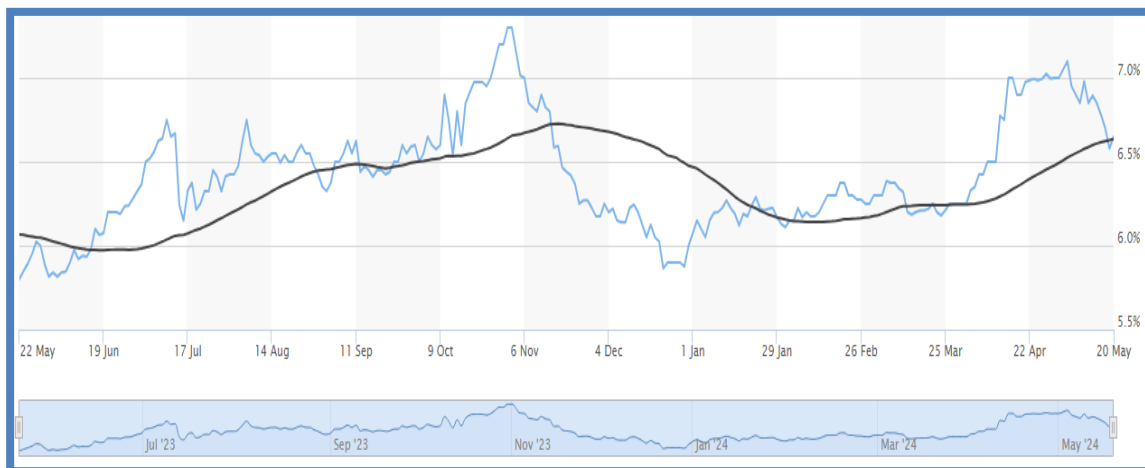
Market Outlook: Neutral
Trading Strategy: With BSP and Fed meetings out of the way, market considers both central banks somewhat dovish. This has yields retrace lower, though still at elevated yields as caution remains due to inflation still being sticky. We look to add on any pull backs but in general are also more risk averse.



The Fed has indicated that they will still need to see more proof that inflation has come under control, but some new data points show that inflation may not be as bad as feared. Equity markets are rallying again, showing that the economy is still booming. Here in the Philippines we got comments that a rate cut may come as soon as August. This has yields down about 20bp across the board, while also following the UST move lower. Overall we have become more positive but are still wary as inflation risks are still to the upside.

PHILIPPINES 10 YEAR GOVERNMENT BOND

PHP BVAL Reference Rates Benchmark Tenors



Tenor	BVAL Rate as of May 17, 2024
1M	5.9422
3M	5.7991
6M	5.9006
1Y	6.0242
3Y	6.4016
5Y	6.4680
10Y	6.6117

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