

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: Net foreign selling ahead of major rebalancing may create an opportunity to buy. If the peso continues its strength and heads back towards 57, stock prices should stabilize. Nimble traders may be able to take advantage of this week's volatility.

Index rebalancing last week led to a net outflow of PhP 8 billion, with PhP 5.3 billion leaving our shores on Friday alone. This caused the PSEi to fall back to the 6400 support level.

Recent rhetoric from the BSP served to strengthen the peso as they said they are monitoring the FX rate. Despite recent news articles indicating 150 bps of interest rate cuts over 2 years, the peso managed to close below the 58/\$ level on May 28. A narrowing interest rate differential may cause the peso to depreciate further, especially if the BSP cuts rates ahead of the Fed. A stable or strong peso will be a boon for our economy and capital markets. We note that the PhP is highly correlated with the PSEi.

After hitting all time highs, global markets are ripe for a correction or consolidation. While this may also cause the PSEi to take a breather, stocks are very close to support levels and have very undemanding valuations.

Philippine Stock Exchange Index (PSEi) 1-year chart

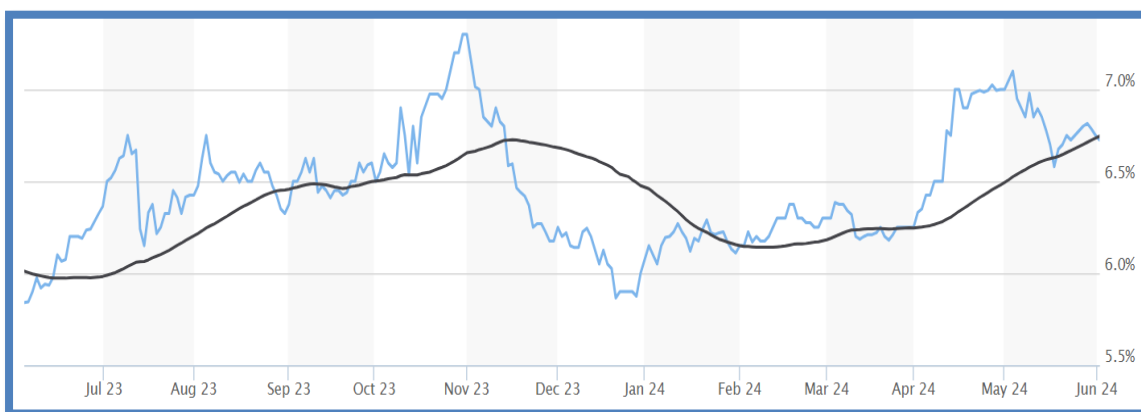


BOND OUTLOOK

Market Outlook: Neutral
Trading Strategy: Seems that much of the fears on rising inflation are put aside for now, with PCE inflation data coming in as expected in the US. Rates have settled again but off the highs, where they will probably stay rangebound until more data on inflation comes out. Next would be this Friday's NFP payrolls data. We will also remain on the sidelines and await more direction.

With PCE inflation data, the Fed's preferred gauge of inflation, coming out as expected, markets breathed a sigh of relief. But the view is still that Fed will remain cautious and the first rate cut expectation has now moved to possibly November. We wait and watch for Friday's job report to see if wages continue to rise. For now, looks like USTs will probably range trade until Friday. Locally, USDPHP is putting pressure on local rates, causing some selloff along with a move higher following USTs. Markets will similarly remain cautious for now.

PHILIPPINES 10 YEAR GOVERNMENT BOND



PHP BVAL Reference Rates Benchmark Tenors

Tenor	BVAL Rate as of May 31, 2024
1M	5.6933
3M	5.7356
6M	5.9596
1Y	6.0653
3Y	6.3823
5Y	6.5134
10Y	6.7516

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