

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 6400 followed by 6200, Resistance at 6700 followed by 7000
Trading Strategy: The PSEI is on a winning streak! Below forecast US inflation sent the US dollar lower, benefitting emerging market currencies and stocks. This helped the Philippines continue its rally and may eventually retest 7000.

The correlation between the Philippine peso and stock market was abundantly clear recently. The peso appreciated by 0.7% over 3 straight weeks despite the BSP continuing to telegraph a rate cut next month. At the same time, the PSEI gained 7.9% even without significant net foreign buying. It ended the week at 6,648. In short order, bearish technicals reversed themselves as the market staged a V-shaped recovery.

The rally in emerging market equities, including the Philippines, was reinforced by below forecast US CPI. US CPI fell 0.1% MoM – the first such decline since the start of the COVID era. This led to a rotation out of tech heavyweights into value and cyclical stocks. Tech heavy North Asian indices like Japan, Korea and Taiwan underperformed after the US CPI report, as ASEAN indices gained.

All told, an August rate cut for the BSP and a September rate cut for the Fed is almost a certainty. Fortunately, the US dollar seems to have peaked. Dollar weakness will be a boon for emerging market assets, including Philippine stocks. If the Philippine peso can break the 58/\$ level, it will also help the BSP in its fight against inflation.

Philippine Stock Exchange Index (PSEI) 1-year chart



BOND OUTLOOK

Market Outlook: Neutral
Trading Strategy: With the GS rally ultimately seeing yields fall from their highs by around 70bp already, we were keen on taking some profits. Other market players may have had the same sentiments as for now, momentum has slowed and the 6.2 handle on the 7 and 10yr seems like a likely resistance point. However, demand is still there for the belly, which is standing out as a value play now with the 518 at 615. For now we still remain neutral and look to take profits on rallies for now.

GS rally has slowed, with it more to do with yields having come down so fast. However, the outlook remains positive in the longer term, with BSP looking to cut rates as early as August. Good news on US data also makes it likely that the Fed will have its first cut in November, with some market players even hoping for a September cut. In other news, a botched assassination attempt on Donald Trump will likely give even more positive momentum for his election bid, which could have some inflationary pressures on the economy.

PHILIPPINES 10 YEAR GOVERNMENT BOND

PHP BVAL Reference Rates Benchmark Tenors



Tenor	BVAL Rate as of July 12, 2024
1M	5.4808
3M	5.6845
6M	5.9839
1Y	6.0480
3Y	6.1089
5Y	6.1745
10Y	6.2503

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