

ADVANTAGE 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 PSE's win streak came to an end as global stocks fell sharply. While the ongoing rotation favors emerging markets, a correction is warranted. It may be better to buy on dips instead of chasing rallies.

After a 4-week win streak, the PSE's upmove came to a halt as global equities fell sharply. Over the course of 2 weeks, the S&P 500 shed 4%, while the Nasdaq Composite plunged 6.7%, including a 3.6% drop on July 24. On a pleasant note, the PSEI was relatively resilient as it lost only 1% this week.

What started as a rotation out of tech stocks into value and cyclical names turned into a full blown correction as fears of a recession crept in. Former New York Fed President William Dudley said that the Fed should cut "now" because recent data indicates that the economy is slipping towards a recession. With market participants only pricing in a 0.4% chance of rate cut in the Fed's July 30-31 meeting, traders were caught by surprise.

President Joe Biden also made a heroic sacrifice as he withdrew from the 2024 US Presidential race. He then endorsed Vice President Kamala Harris, who hit the ground running. Due to Biden's withdrawal, Donald Trump is now the oldest US presidential candidate. This contrasts with Harris' relatively youthful age of 59. Some surveys indicate that some Trump voters have moved to the camp of Harris. This contrasts sharply with survey predictions of Trump's certain victory after the debate with Biden.

With so many things up in the air, it may be safer to buy on dips instead of chasing rallies. Still, the relative outperformance of the PSEI gives us confidence that foreign investors are starting to look at the Philippines.

Philippine Stock Exchange Index (PSEi) 1-year chart



BOND OUTLOOK

Market Outlook: Positive
Trading Strategy: US 2Q GDP came in a little higher than expected but overall nothing surprising shoring up confidence that the US is not going to fall into recession. Coupled with encouraging inflation data and the Fed becoming more dovish, rates are now caught in a range around 4.2 for the 10Y UST but with a bias toward falling further. With the BSP also dovish and likely to follow through with its cut in August, local rates are also likely to trend lower. Current levels may be already a good level to reinstate positions.

With all data pointing towards central banks cutting rates soon, this may be the time to lock into longer dated bonds at the 6% handle. BSP will likely push through with its August cut, and the Fed will most likely mention in its meeting this week that it will cut also, if not in September then definitely in November. Local benchmark 10yr 1072 is now trading below 6.2 at around 6.18 and most likely next target would be the 6.00 mark.

PHILIPPINES 10 YEAR GOVERNMENT BOND



PHP BVAL Reference Rates Benchmark Tenors

Tenor	BVAL Rate as of July 26, 2024
1M	5.4391
3M	5.7294
6M	6.0390
1Y	6.1583
3Y	6.0893
5Y	6.1948
10Y	6.2759

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