

ADVANTAGE POINT

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

EQUITY OUTLOOK



Market Outlook: Cautious
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 global rotation out of tech stocks turned violent as some major indices entered correction territory. While the Philippines will benefit from a rotation out of tech into cyclical and value, it will not be immune to massive corrections. With recession expectations coming to fore once again, prudence may be the better part of valor.

Bloodbath. This would describe the move in global markets last week. On Friday, Asian equities were down sharply. Most notable were Korea's 3.7% loss, Taiwan's 4.4% drop and Japan's 6% plunge. US equities also gyrated violently, with indices alternating between significant gains and losses from day to day.

Above forecast US jobless claims also sent US 10-year Treasuries below the 4% mark has rate cut bets increased. However, some economists and former Fed governors brought up the possibility of a recession, which is no longer expected by markets. With this distant memory coming to fore, fuel was added to the fire, further fuelling risk-off sentiment.

2Q24 corporate earnings are also trickling in, and we note weakness in many of the names that have reported. This adds to evidence that indicates consumer sentiment has turned negative in a big way. The exit of POGOs is also weighing down on the already battered property sector.

Against this backdrop, it may be better to pick one's spots and wait for this correction to play out. While we expect corporates which can still manage to report above forecast earnings or have company-specific catalysts to outperform, these companies will be in the minority.

Philippine Stock Exchange Index (PSEi) 1-year chart



BOND OUTLOOK



Market Outlook: Positive
Trading Strategy: With the Fed now signaling a cut could be likely in September and the BSP telegraphing a cut in August, rates have already rallied. 10yr 1072 now already stands at 6.1, coming from around 6.3 last week. As it stands, we will probably see resistance around these levels as market players take profit, given such a flat curve. We will likely stay nimble and look to continue adding to our positions for the longer term, though will be patient and wait for any pullbacks.

Markets are now fully into rally mode in rates, with the 10y UST breaching the 4 handle significantly at 3.8, and with our local 10y benchmark at 6.1. We are encountering profit takers the closer we get to the 6 handle so we would be better buyers on any pullbacks rather than chasing the rallies. However, on the longer view, 10y will probably continue to fall, especially if inflation remains within the BSP target of 4%. We get July CPI data this week, with BSP saying it will come out between 4 - 4.8%. This would be higher than previous month but overall still good on the inflation front.

PHILIPPINES 10 YEAR GOVERNMENT BOND



PHP BVAL Reference Rates Benchmark Tenors

Tenor	BVAL Rate as of August 02, 2024
1M	5.4890
3M	5.7871
6M	6.0643
1Y	6.1631
3Y	6.0170
5Y	6.0809
10Y	6.1328

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