

# 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:** Historic moves across different asset classes are a sign that markets may be at an inflection point. Investors should take this time to review their asset allocation and sector exposure.

The bloodbath continued to start the week. Major equity indices across the world plunged sharply, with Japan's Nikkei losing 12% on Monday – the biggest one-day drop since Black Monday of 1987. At the same time, the Japanese yen spiked to 14170 against the dollar as the carry trade was unwound.

These were triggered by a number of simultaneous events. First was the BoJ's decision to raise interest rates – opposite what other central banks are doing. Second, weak jobs data from the US caused traders to reprice their interest rate expectations, with many calling for 4 cuts this year and even a 50 bps cut in September. Some prominent economists went as far as saying an emergency August meeting is warranted. These contributed to the expectation of significant narrowing of the interest rate differential between Japan and the US, but the resulting unwinding of the carry trade took a violent turn.

This occurred at the same time as a rotation out of tech stocks into cyclical and value names. Fortunately, the PSEi only lost 4% during this messy unwinding, with almost all the losses made back by the end of the week. This is aligned with our call that the Philippines will be a beneficiary of this rotation.

However, the sharp rise in volatility and massive asset price dislocation should give investors pause. Now is the time to assess one's portfolio and determine if one is comfortable with their current risk exposure.

Philippine Stock Exchange Index (PSEi) 1-year chart



## BOND OUTLOOK

**Market Outlook:** Neutral  
**Trading Strategy:** This week will be loaded with events for local bonds so traders will likely stay nimble or on the sidelines to get a better gauge on where rates will be going. First will be the 7yr reissue of the 2017. But more importantly is the BSP meeting on Thursday. Markets will wait and see if indeed there is a cut or a pause. In the meantime, we also are holding off for now, but will look to increase our position in the belly of the curve if rates back up around 10-15bp as the longer term trend is still for rates to go lower.

Markets will be on the sidelines to start the week as everyone awaits the BSP decision on Thursday. BSP had earlier said that it wants to cut rates as early as August, but a disappointing inflation number last week had them backtrack on this. July CPI was unexpectedly high which caused the BSP to express worry. However they did mention that if they decide to pause during their meeting, an off cycle cut is not out of the question. In the US there is also inflation coming out which should give us better insight on how close the Fed is to cutting rates.

PHILIPPINES 10 YEAR GOVERNMENT BOND



PHP BVAL Reference Rates Benchmark Tenors

Tenor	BVAL Rate as of August 09, 2024
1M	5.5345
3M	5.8429
6M	6.1056
1Y	6.1977
3Y	6.0385
5Y	6.0825
10Y	6.1535

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