

ADVANTAGE POINT

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

EQUITY OUTLOOK

- Market Outlook:** Cautiously bullish
- Sector Picks:** Index heavyweights, Stocks which beat earnings forecasts, Companies which derive a large portion of their income from foreign sources
- Technicals:** Support at 7200 followed by 7000, Resistance at 7450 followed by 7800
- Trading Strategy:** The PSEi continues its ascent as the Fed delivers a boost to markets. With fears of a recession mostly forgotten, as well as foreign institutions & technicals on our side, the best strategy may be to enjoy the ride.

After years of failing to stage a definitive breakout, the PSEi roared back with a vengeance. After closing above 7000 on September 12, the market never looked back. Minor resistance levels and local selling did not stop this train as foreign institutions started to pile into index names. Net foreign buy in September alone stands at \$170M and counting.

Boosting this overall bullishness is the Federal Reserve's 50-bp rate cut. View as being behind the curve, the jumbo cut puts this to rest. Moreover, Fed Chairman Jerome Powell said all the right words during his press conference as he touted their new "recalibration" strategy. Instead of stoking fears of a recession, Powell said he does not see a recession in the horizon and is instead working hard to engineer a soft landing.

US equities touched new all-time highs as confidence in the Fed was restored. Fears of a recession held back many investors who felt that it was only a matter of time before growth rates turned negative. But so far, with markets buying into Powell's narrative, we are in a Goldilocks situation of controlled inflation, positive growth, falling rates and rising stock prices.

Previously, foreign investors were also wary of a weakening peso dampening the already poor returns of Philippine stocks. With the peso now on a clear strengthening trend against the US dollar, this risk was removed. We expect peso strength and strong stock prices to go hand in hand.

As of this writing, the PSEi is also trading 20% above its recent low – yet another sign that the bull market is alive and kicking. Sellers may feel a great degree of remorse.

Philippine Stock Exchange Index (PSEi) 1-year chart



BOND OUTLOOK

- Market Outlook:** Neutral
- Trading Strategy:** Don't fight the Fed, as learned from history. The Fed had already telegraphed that it would cut rates, and did so with a jumbo 50bp move. The signaling was that the large cut was to keep the US economy in its current path, not because the Fed saw signs of weakness. Markets were flat in the immediate aftermath but are headed up again. In the local space, the BSP took the Fed's lead and cut the RR, releasing about 150bn in liquidity into the market. Yields dropped 20bp but ultimately it was a kneejerk reaction, and levels softened back by 15bp. We look to buy into longer dated bonds but will wait for profit takers to finish unloading.

With the Fed and BSP double good news on loosening monetary policy, we saw bonds rally decisively below 6% to even hit a low of 5.5 on both the 5y R518 and the 10y 1072. This may have been a kneejerk reaction though as towards the end of the day, there was a wave of sellers trying to take advantage of the large dip, eventually sending levels back up around 15bp to settle at 5.675 to 5.7. Local market may have gotten ahead of itself, with the 5.5 level already fully pricing in the Fed's 50bp cut and probably 50bp more of cuts this year, and the RR cut. However, as profit taking continues to occur, we think that more reasonable levels closer to 6% would be a good entry point to lengthen duration, as the Fed will most likely continue its rate cuts into 2025.

PHILIPPINES 10 YEAR GOVERNMENT BOND



PHP BVAL Reference Rates Benchmark Tenors

Tenor	BVAL Rate as of September 20, 2024
1M	5.6416
3M	5.7359
6M	5.8795
1Y	5.9249
3Y	5.6534
5Y	5.6222
10Y	5.6520

Disclaimer: The information contained herein is the property of Philequity Management Inc. and may not be copied or distributed without the prior consent of Philequity Management, Inc. The information and views expressed herein is not warranted to be accurate, complete or timely and may change without prior notice. Neither Philequity nor its content provider is responsible for any damages and losses arising from any use of this information. Past performance is not a guarantee of future results. Investments in mutual funds are not guaranteed by the Philippine Deposit Insurance Corporation. Investing in mutual funds involves risk and possible losses of principal. Consult a professional before investing. For inquiries, please contact Philequity Management, Inc.

