

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 entered bull market territory as foreign buying continues. With the market approaching next resistance of 7450, a correction is possible. However, with many catalysts aligning in favor of the Philippines, buying on dips may be a good strategy.

The PSEi continues its breakout run beyond 7000 and it headed straight to the next resistance of 7450. The foreign buying streak continues, with huge blocks coming through even at a premium to market prices – a sign of strong demand for Philippine stocks. By September 26, the PSEi erased its foreign sell deficit and is not net foreign buy on a YTD basis.

The Fed's recalibration of monetary policy continues to lift emerging markets as investors put their trust in Fed Chairman Jerome Powell's ability to prevent a recession. The dollar continued to remain weak as well – another boon for Philippine stocks.

Yet another new catalyst emerged as China unveiled a massive stimulus package. It included an infusion of \$140 billion for banks, a \$70 billion stock stabilization fund, a 0.5% cut in mortgage rates, a cut in second home downpayment prices and many more. This bazooka electrified Chinese equities, with the CSI rising 16% in just 1 week. With China comprising more than 20% of the MSCI Emerging markets index, of which the Philippines is also a member, flows into China should lead to more flows into the Philippines as well.

That said, technicals indicate that this rally may be stretched as we are approaching another significant resistance level. While a correction is likely and also healthy, investors who still wish to increase equity exposure may use dips as an opportunity to buy.

Philippine Stock Exchange Index (PSEi) 1-year chart



BOND OUTLOOK

Market Outlook: Positive
Trading Strategy: Now that the Fed has signaled they want to keep the economy strong by supporting it with cuts, and with the BSP also providing a boost with guidance for even more RR cuts and rate cuts, we would be looking to add to positions if possible though the rally has been steep. Any retracement towards 6% levels would be a good reentry point, whereas closer to 5.5 would possibly be medium term resistance levels.

We knew that the Fed would cut, and they did so with 50bp and more on the way. We also knew that this would give BSP more room to loosen monetary policy. They did by cutting the RR to release more than 150bn in liquidity to the markets. Then BTR announced its 4Q borrowing schedule, with a reduced amount of bonds to be offered. This all had markets scrambling to load up on bonds. As it stands, 10y 1072 is now around 5.65 but will likely push lower until we reach 5.5 levels with the risk to the downside of approaching 5.25 by the end of the year. This week though, we wait for August CPI, but this should also confirm that inflation is continuing its downtrend.

PHILIPPINES 10 YEAR GOVERNMENT BOND



PHP BVAL Reference Rates Benchmark Tenors

Tenor	BVAL Rate as of September 27, 2024
1M	5.2363
3M	5.2578
6M	5.3818
1Y	5.5599
3Y	5.5357
5Y	5.5874
10Y	5.7406

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