

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 magnitude and the steepness of the PSEi rally calls for a correction or consolidation. With the next major market-moving event less than a month away, it may pay to wait and see.

Markets were looking to China after trading resumed after the holidays. Unfortunately, investors woke up to a rude awakening. A much awaited press conference on October 8 regarding the details of China's stimulus package proved to be a dud. HK and China stocks saw double digit percentage downmoves as disappointment pervaded markets.

In the Middle East, Israel's war with Hezbollah is escalating as it sent ground forces into Lebanon. Oil prices rose 15% over a week before settling down as markets gyrated between fear and hope regarding this ever-expanding conflict. Note that high oil prices are a significant risk for the Philippines.

On the FX front, strong US economic data sent US bond yields and the dollar higher as investors dialed down their rate cut expectations. There is a growing view that the Fed may actually be able to manage to engineer an elusive soft landing for the US economy.

A strengthening dollar and higher oil prices caused the Philippine peso to weaken significantly. In the past 3 days alone, our currency depreciated by 70 centavos against the US dollar and is threatening to break the 57/\$ level. The reversal in the peso chart indicates that the currency may consolidate between 56 and 57 before making another decisive move.

With oil prices rising and the peso weakening, all that is keeping our market strong are foreign inflows. At this point, with the PSEi up 16% YTD ahead of US presidential elections, prudence may be the better part of valor.

Philippine Stock Exchange Index (PSEi) 1-year chart

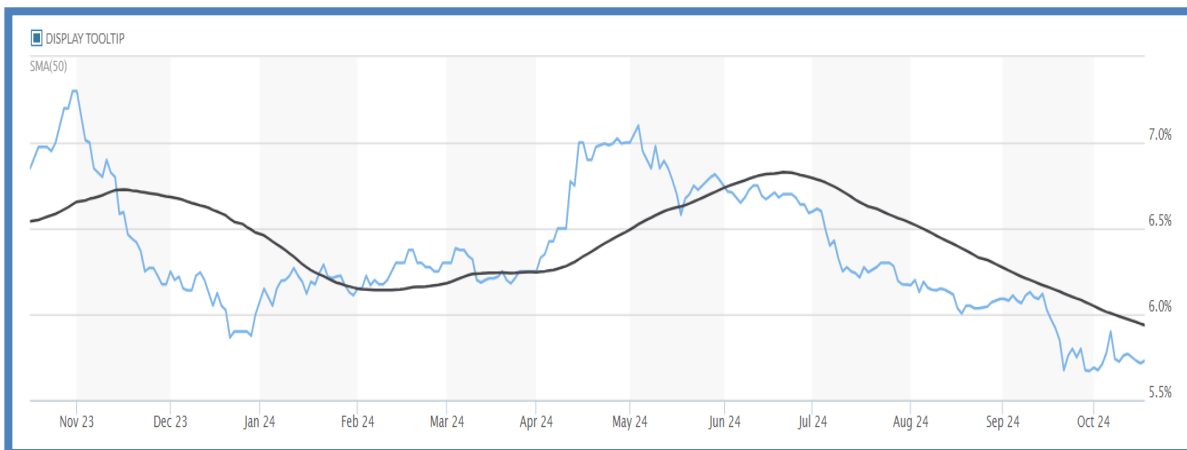


BOND OUTLOOK

- Market Outlook:** Defensive
- Trading Strategy:** Following the surprise strong jobs number and slightly higher CPI, bets are now being lowered for a large cut by the Fed in the following meeting. There was also dissent among the Fed members in the last meeting for the 50bp rate cut, according to recent Fed minutes. With uncertainty in the Middle East also playing a part, 10y UST has risen to above 4 to 4.10. For now we remain defensive but could look to add to positions if better levels emerge.

We believe that with the view that the Fed may take it slow in the next meetings, market should be rebalancing and should have yields on the defensive for the meantime. This would also affect local yields, as they have backed off from their lows at around 5.5 but are still close to it at around 5.65 for the 5yr and 5.7 for the 10y. We would like to see some further correction before adding, hopefully closer to the 6% handle.

PHILIPPINES 10 YEAR GOVERNMENT BOND



PHP BVAL Reference Rates Benchmark Tenors

Tenor	BVAL Rate as of October 12, 2024
1M	4.5889
3M	5.0431
6M	5.4469
1Y	5.6166
3Y	5.6012
5Y	5.6504
10Y	5.7317

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