

# ADVANTAGE POINT

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

## EQUITY OUTLOOK

**Market Outlook:** Cautious  
**Sector Picks:** Index heavy weights, Stocks which beat earnings forecasts, Companies which derive a large portion of their income from foreign sources  
**Technicals:** Support at 6200 followed by 6000, Resistance at 6500 followed by 6800  
**Trading Strategy:** A surprise change in the Fed's interest rate trajectory led to dollar strength and weakness in emerging market assets. Though downside for Philippine stocks may be limited due to depressed valuations, this is still a negative development for us.

Central bank decisions drove asset prices this week as the Fed dropped a bombshell on markets. The rate cut from 4.75% to 4.5% was widely expected. However, Fed Chairman Jerome Powell's 2025 forecast for interest rate trajectory was not. Contrary to forecasts and the Fed's own dot plot, Powell said the Fed is likely to reduce interest rates in 2025 by only 50 bps instead of 100 bps. This caused the S&P 500 to lose 3%, the tech heavy Nasdaq Composite to fall 3.6% while the Dow Jones index dropped 2.6% for its 10th straight losing day.

The dollar strengthened against almost all currencies in the hours following the surprise statement during the press conference. Bond yields also rose as analysts revised their interest rate expectations. The move of the Fed is a sharp contrast to central banks around the world, most of whom are keen to keep lowering interest rates. For example, the BSP announced yet another rate cut this past week, bringing the Philippine benchmark rate to 5.75%. Moreover, BSP Governor Eli Remolona Jr. said that the BSP will definitely cut rates further next year, with a 100 bps reduction being unlikely.

If dollar strength continues, it will weigh on emerging markets including the Philippines. In the past week, foreign funds net sold another PhP 4.1B worth of equities. With the PSEi breaching the major support level of 6500, technicals may prompt traders to further reduce their positions. Unless index stocks see yearend window-dressing, the PSEi may experience an unprecedented 5th straight down year.

**Philippine Stock Exchange Index (PSEi) 1-year chart**



## BOND OUTLOOK

**Market Outlook:** Neutral  
**Trading Strategy:** This week should be light of any action as most traders are away on holiday. Similarly, Fed and BSP rate cuts are already out of the way, with both central banks cutting 25bp and expressing that they will be prudent going forward, and wait for inflation data. As expected, this will have rates more or less stay where they are going into the yearend, with some room for profit taking. We will stay on the sidelines as well as we wrap up the year.

The Fed and BSP did as most expected and cut interest rates 25bp. BSP was a bit more dovish, as they expect inflation to be contained and that there is room to cut rates. However they most probably will move in lockstep with the Fed, so as not to worsen the USD/PHP depreciation. The Fed meanwhile was a bit hawkish, considering inflationary rhetoric from incoming President Trump, especially on tariff talk. This means that the amount of cuts that the Fed has projected for 2025 was trimmed down, and it will be a shallower path for rate cuts going forward.

**PHILIPPINES 10 YEAR GOVERNMENT BOND**



**PHP BVAL Reference Rates Benchmark Tenors**

Tenor	BVAL Rate as of December 20, 2024
1M	5.7313
3M	5.9447
6M	6.0765
1Y	6.0716
3Y	6.0098
5Y	6.0258
10Y	6.0101

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