

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. Sold ALTER URC – cutting losses
Technical: Support at 6200 followed by 6000, Resistance at 6500 followed by 6800
Trading Strategy: Net foreign selling and dollar strength resumed, causing the PSEi to dip into the red. We note other Asian currencies and equity markets are weakening as well. It will be difficult to buck the trend.

The PSEi broke down as foreign selling accelerated ahead of incoming US President Donald Trump's inauguration. Foreigners sold PHP 3.3 billion this week alone, causing the index to lose 22% as it fell below the 6500 support level. Major support lies at 6000. We note that weakness in ASEAN continued despite US equities recovering their losses from the previous week.

At the same time, the Philippine peso continued its downtrend and is dangerously close to the crucial 59/\$ support. If this level breaks, we may see significant depreciation for our currency. Unfortunately, the BSP may have its hands full defending the peso because almost all currencies are weakening against the US dollar.

Trump's appointee for the position of US Treasury Secretary, Scott Bessent, was also grilled by US lawmakers ahead of his potential confirmation. During the Q&A portion, he expressed support for more tariffs, tax cuts and a strong US dollar. These are precisely the policies that made foreign investors reduce their emerging market exposure.

Philippine Stock Exchange Index (PSEi) 1-year chart



We remain on hold for now.

BOND OUTLOOK

Market Outlook: Neutral
Trading Strategy: We would like to remain defensive but yields are starting to soften, following the in line inflation data in the US. 10y UST yields have fallen more than 10bp with local bonds following suit. At levels of around 6.25 and higher, this might be a good opportunity to buy and hold bonds, as BSP still sees inflation holding at 2-4% and key rate to fall to 5%

With Trump inauguration already past us, markets take a sigh of relief and focus on business as usual. For now, Trump policies may hopefully be less restrictive than anticipated, which should make the Fed's job easier in terms of fighting inflation. If inflation data comes in as expected and softer, we may see markets swing back to anticipating more cuts this year by the Fed, which should lead to yields falling back to previous levels.

PHILIPPINES 10 YEAR GOVERNMENT BOND



PHP BVAL Reference Rates Benchmark Tenors

| Tenor | BVAL Rate as of January 17, 2025 |
|-------|----------------------------------|
| 1M | 5.4130 |
| 3M | 5.4973 |
| 6M | 5.6265 |
| 1Y | 5.8954 |
| 3Y | 6.0656 |
| 5Y | 6.1975 |
| 10Y | 6.3333 |

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