

ADVANTAGE

POINT

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

EQUITY OUTLOOK

Market Outlook: Neutral
Sector Picks: Index heavyweights. Stocks which beat earnings forecasts. Companies which derive a large portion of their income from foreign sources
Technicals: Support at 6000 followed by 5,700, Resistance at 6200 followed by 6500
Trading Strategy: As expected, stocks bounced back sharply from artificially oversold levels. However, any sustainable rally needs to be underpinned by catalysts, which are still few and far in between. If one cannot stomach the volatility, one can consider reducing risk exposure.

After falling for 4 straight weeks, culminating with a 4% drop on January 31 due to index rebalancing, the PSEi gained 5% in the 1st week of February. Stocks were artificially oversold as the movements of index trackers were exacerbated by a lack of liquidity. Still, the index has much ground to cover as its down 5.7% YTD despite the bounce.

President Donald Trump rattled the world with sweeping 25% tariffs on Canada and Mexico, as well as an additional 10% tariff on China. Global equities sold off initially, until emergency talks between each country's leader led to a 1-month pause on tariffs for Canada and Mexico. However, China did not engage in talks and is launching retaliatory measures. The sharp ascent of the dollar reversed after tariffs were paused, allowing the peso to appreciate back to the 58/\$ level.

Domestically, while inflation is tapering off, we note that rice prices still have room to fall as import prices have fallen much faster than domestic prices. However, GDP growth is uninspiring and we hope that midterm elections will provide a boost. Government spending needs to pick up as households are just starting to rebuild savings.

Full year corporate earnings are not expected to cause significant movements for the market, so macro factors are likely to be the driving force in the next 3 months. That said, we are wary of political noise which is starting to get louder.

Philippine Stock Exchange Index (PSEi) 1-year chart



BOND OUTLOOK

Market Outlook: Neutral
Trading Strategy: Rates have come down about 10bp on softer US jobs data. The 5yr R518 has been traded around 585 and the 10y 1072 has reached 6% which has been met with lots of profit takers ahead of the BSP meeting this Thursday, where market expects BSP to cut an additional 25bp. We are also on the profit taking side as we believe the cut is already fully priced in and there are still risks to inflation to the upside.

Last week, US jobs data came in as expected, though this was taken positively by the market. Trump tariffs were also postponed by a month, which eases some inflation concerns. UST yields were lower by around 10bp, and local bonds followed the move. With BSP sounding dovish, and would likely cut even if the Fed seems to want to pause for now, local rates have rallied mostly below 6% now. This has been met with solid profit taking at these levels, as BSP rate would likely hover around 5.25 to 5.5, which would make the 5yr benchmark at around 5.85 a bit tight. Hence we would wait to reenter at better levels at higher than 6% and would look to lock in any gains here.

PHILIPPINES 10 YEAR GOVERNMENT BOND

PHP BVAL Reference Rates Benchmark Tenors

Tenor	BVAL Rate as of February 7, 2025
1M	4.8201
3M	5.1697
6M	5.4959
1Y	5.7201
3Y	5.8343
5Y	5.9184
10Y	6.1178



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