

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTOR PICKS: CYCLICAL STOCKS WITH EFFECTIVE RECOVERY PLANS AND FORTRESS BALANCE SHEETS, STOCKS WITH LOW VALUATIONS, COMPANIES WITH LESS DOMESTIC EXPOSURE

TECHNICALS: SUPPORT AT 6500 FOLLOWED BY 6200, RESISTANCE AT 6800 FOLLOWED BY 7000

After a dismal trading week post-elections, the PSEi rebounded 5.7%, erasing the previous week's losses. Equity markets continue to be volatile but technicals indicate that current support levels seem to be holding for now. It remains to be seen if a bottom has indeed been reached, but recent moves give us reason to hope. While Asia has not shown the ability to decouple from the US on a long term basis, we hope that Asia's outperformance will continue to carry the PSEi.

On the fundamental side, corporate earnings are not as rosy as analysts expected at the start of the year. Cautious corporate spending and rising inflation have caused some companies to report below forecast 1Q22 earnings. We expect these factors to have a more significant impact on 2Q22 earning,

Sharp movements in various stocks recently can be attributed to MSCI rebalancing that is effective on May 31. It is interesting to note that some names are moving in the opposite direction of their supposedly large inflows or outflows.

The BSP's rate hike was a welcome development as it stemmed the peso's recent weakness. We hope that the BSP uses monetary policy to keep the peso stable even if it does not mimic the Fed's rate hikes.

As Cabinet positions are getting filled up, still no word on the incoming administration's economic team. We await their economic agenda as well.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



US markets continue to be volatile while Asia outperformed last week on the back of strong China stock market performance. This may be the start of the bottoming process, but we note that it may take time. Those who want to buy must still do so cautiously.