

VANTAGE POINT

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

EQUITY OUTLOOK

MARKET OUTLOOK: NEUTRAL

SECTOR PICKS: CONSUMER, FINANCIAL NAMES, STOCKS WHICH BEAT EARNINGS FORECASTS, COMPANIES WHICH DERIVE A LARGE PORTION OF THEIR INCOME FROM FOREIGN SOURCES.

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

Everyone thought the Fed's May move will be its final hike. Fed Chairman Jerome Powell poured cold water on market expectations by saying future hikes will be data dependent, adding that the Fed "did not decide on a pause." So while Fed language is no longer firm on future hikes, it did not close the door on tighter policy either. Instead, Powell articulated that the Fed does not anticipate cutting interest rates this year, notwithstanding a potential recession.

Powell's relative silence on the US regional banking crisis also added to concerns regarding the sector as a whole. While he did discuss recent events, such as the failure of SVB and JP Morgan's purchase of FRC's assets and liabilities, he said little to assure the investing public that the crisis is over. This was contrary to JP Morgan CEO Jamie Dimon's assertion that with the purchase of FRC, "this part of the crisis is over." This caused US banking stocks, especially regional banks, to fall sharply.

Corporate earnings are rolling in and it seems stock prices are reflecting earnings trajectory. Banks continue to show widening NIMs despite slowing loan growth, while property companies are having difficulty both on the residential and office segments. We expect consumer stocks to be less homogenous. This divergence in earnings growth means that the universe of stocks that may outperform the PSEi will narrow significantly. Thus, buyers in this market should be very selective in their purchases.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY

The Fed's hawkish tone after the May rate hike, coupled with the lack of assurance regarding the US regional banking crisis, only served to increase uncertainty. Still, with interest rates remaining high for a prolonged period of time, we expect buying opportunities to emerge in the future. With the exception of the highest quality names, it may be better to err to the side of caution.



BOND OUTLOOK

**MARKET OUTLOOK:
POSITIVE**

TRADING STRATEGY

With FOMC out of the way and inflation data pointing towards a slowing of prices, market players are now loading up on duration, keen to lock in yields for longer. With the overall trend looking like yields will be stable to trending lower, we suggest lengthening duration and picking up on high quality names with some yield premium.



With the FOMC hiking by 25bp as expected, most traders see the Fed giving a dovish signal. Most are expecting the Fed to pause soon and then in the latter half of the year maybe even start cutting rates. This is still too premature but there are good signs that inflation may indeed have slowed.

Here in the Philippines we also see inflation cooling, with April CPI coming in at 6.6 on lower food and fuel costs. BSP has signaled that it is likely to pause in its next rate setting meeting next week.

Local bonds have been bought by the market, with traders eager to lock in rates, especially on the longer end where yields are still closer to 6%. For this week we are looking at a reissue of the 10y 10-69, which is already trading at around 5.9. This will give us a better indication of demand at this level, although volume from last week has been high as market participants have been loading up.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of May 08, 2023
1M	5.8176
3M	5.9526
6M	6.0613
1Y	6.1943
2Y	5.9524
3Y	5.8945
4Y	5.8558
5Y	5.8339
7Y	5.8591
10Y	5.9366
20Y	6.0409
25Y	6.0259



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