MONTHLY EQUITY RECAP

SEPTEMBER 2023

After a bloody August, the PSEi managed to regain some of its footing. After hitting the major support level 6000 on September 20, the PSEi rallied more than 5% to end the month at 6321. This is a 2.4% improvement over the end-August level.

Our research indicates that foreign selling may have exhausted itself, at least temporarily. The Philippine stock market experienced a 24-day streak of net foreign selling with net outflows amounting to $370M. After the final selldown, the index managed to rebound. We note significant buying around the 6000 level for the PSEi and equivalent support levels for different stocks.

Another factor that helped the market recover is BSP Governor Eli Remolona's hawkish stance when he said that an offcycle rate hike is possible. Moreover, he added that he is willing to stake his career that the BSP will not need to cut rates in 1H24. This caused the peso to stabilize between 56.50 and 57/$ despite our Asian peers dropping sharply against the US dollar. In fact, by end-Sept, went from being among the worst performing Asian currencies to among the best on a YTD basis. While central bank hawkishness does weigh on growth, a strong or stable peso is critical to attracting foreign inflows into equities.

On the inflation front, it is clear that it will now remain elevated for some time. Rice and oil comprise a significant portion of our inflation basket. For example, rice prices rising 20% in August-Sept alone is such a major social issue that the government decided to impose a price cap on rice, followed by a price floor for palay. While it remains to be seen if this will bring down rice prices, it shows the sense of urgency that all sectors of society have regarding the reduction in consumer spending.

As a result, we expect consumption spending and household balance sheets to be weaker than expected. Over time, this should recover, but 2023 is not likely to be the year for that. This will have a corresponding negative impact on corporate earnings, with the magnitude dependent on the sector. Persistent inflation also means higher for longer. This will continue to weigh on interest-rate specific sectors, such as property.

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