

# 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 6000 FOLLOWED BY 5700, RESISTANCE AT 6200 FOLLOWED BY 6400**

Despite the holiday break being a week away, trading volume in the Philippine stock market looks as if people packed up for vacation already. Despite traded value staying at PhP 3 billion, foreign selling is significantly heavier than last week. Thus, the PSEi fell below the 6200 support level as it lost 2% in just 2 days.

The main culprit is once again interest rates. US 10-year yields hit their highest point in 16 years as they nearly touched 5%. Interest rate expectations also rose as Fed Chairman Jerome Powell said that both the jobs market and inflation are not yet at target, which means that policy rates are not yet too tight. This opened the door for at least one more rate hike, as well as a prolonged period of higher interest rates. This is a negative for growth and, consequently, risk assets.

The Israel-Hamas conflict also continues to swelter as both sides continue to inflict casualties. Iran has indicated that an oil embargo is on the table as Western powers frantically tried to diffuse the tense situation. Still, matters are very fluid but we hope that the conflict deescalates sooner rather than later.

Like we said last week, investors should realize gains where they can. There is no rush to increase risk exposure unless there are sharp and irrational price dislocations.

**Philippine Stock Exchange Index (PSEi) 1-year chart**



### TRADING STRATEGY

The PSEi failed to keep its head above water, losing 2% in a week on heavy foreign selling despite thin liquidity. Higher bond yields and interest rate expectations, coupled with uncertainty from the Israel-Hamas conflict, sapped all bullishness from the market.



# BOND OUTLOOK

**MARKET OUTLOOK:  
DEFENSIVE**

**TRADING STRATEGY**

USTs continued to push higher, with the 10y hitting 5% on the back of stronger data in the US. With the higher benchmark yields, local bond bids also backed off considerably and market action dried up. We move back to a defensive stance as we wait for more clarity from central banks on what they will do in the coming weeks. The next rate setting meetings will come in November, but an off cycle hike is not off the table should data warrant it.



With USTs going back to multi year highs, the Fed was actually quite calm in its statements the past week. It seems that they are content to be data dependent, but believe that rates will probably stay higher for longer.

Most of the data coming out shows that inflation is still running relatively high, and not yet as in control as markets would want.

Up this week is also a 10y bond auction locally, so we should get a gauge on demand for longer dated bonds.

Last week the BTR accepted above market bids for its 7yr auction, so players are wary that the 10y may hit as high as 7%.

**PHP BVAL Reference Rates – Benchmark Tenors**

Tenor	BVAL Rate as of October 23, 2023
1M	5.9063
3M	6.0398
6M	6.2194
1Y	6.5059
2Y	6.405
3Y	6.462
4Y	6.5192
5Y	6.5725
7Y	6.6259
10Y	6.6319
20Y	6.6774
25Y	6.5329



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