

ADVANTAGE POINT

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

EQUITY OUTLOOK

Market Outlook: Cautiously Bullish
Sector Picks: Index heavyweights, Property/consumer, Stocks which beat earnings forecasts, Companies which derive a large portion of their income from foreign sources
Technical: Support at 6700 followed by 6400, Resistance at 7000 followed by 7400
Trading Strategy: 7000 proved to be formidable. With net foreign buying taking a break, the PSEI finally took a breather. Still, we believe dips are an opportunity to buy but we recommend sticking to high quality names.

After touching 7000 twice this month, the PSEI finally ran out of steam. Down 1.2%, this is only the 2nd losing week of the index in 2024. Continuous foreign buying kept the market afloat until the last few days when foreign inflows slowed to a trickle. This caused the market to correct as it failed to break the major resistance level of 7000.

With most index stocks done reporting full year 2023 results along with 2024 guidance, news flow will be lighter than usual for the next 2 months. Fortunately, we are seeing significant news on the M&A front which may continue to lift sentiment.

On the inflation side, food inflation reared its ugly head once again. Combined with increases in transport and utility costs, inflation in February rose to 3.4%. This prompted the BSP to say that while they will maintain a pause on hikes, they are not in a hurry to cut as they need more assurance that inflation will remain firmly within 2-4%. Upside risks include a prolonged El Nino and potential minimum wage hikes.

The measured hawkishness of the BSP is positive for the peso and consequently, risk assets. By not cutting before the US Fed does, the stability of the peso is maintained. Note that Fed Chairman Jerome Powell also pushed back on rate hikes in the near future, signalling that while they are ready to cut, it will likely be in the latter half of the year.

Philippine Stock Exchange Index (PSEi) 1-year chart



BOND OUTLOOK

Market Outlook: Neutral
Trading Strategy: Markets were waiting for direction for most of the week, with yields just moving in a tight range. We got some confirmation that the Fed would continue to be cautious but that it is appropriate to cut rates possibly sometime this year. Thus rates moved slightly lower but still overall in a range. We think that this sort of trading will continue for now and thus will just stay on the sidelines for now.

With Jerome Powell stating that the Fed will not move until it has a confirmation that inflation is in check, markets hardly moved as this was widely expected. Bets have already been rolled back for a cut in March, and the next logical target for a rate cut would be June at the earliest.

In the Philippines we got CPI coming in above expectations at 3.4% vs 3% but core inflation excluding volatile food and rice prices is trending down. Inflation is expected to stay elevated for the summer El Nino months, but BSP is likely to move if the Fed starts cutting in June.

PHILIPPINES 10 YEAR GOVERNMENT BOND

PHP BVAL Reference Rates – Benchmark Tenors



Tenor	BVAL Rate as of March 07, 2024
1M	5.7251
3M	5.7764
6M	5.9785
1Y	6.1117
3Y	6.1727
5Y	6.2388
10Y	6.2528

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