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The Stock Exchange of Thailand (SET) Index continued its rise throughout last week. Early in the week, the market was supported by improved US labour-market figures and stronger Chinese economic data (industrial production and retail sales) for November. Later last week, the SET Index rose above 1,350 points, a 16-year high, after the US Federal Reserve announced a fourth round of quantitative easing (QE4). Europe also took some steps toward solving its debt crisis, including approval of 49.1 billion euros (Bt1.9 trillion) of assistance to Greece and an agreement on the establishment of a banking union. The market also had a positive response to projections that China's fourth-quarter gross domestic product (GDP) will expand from the third quarter of this year after HSBC's preliminary report of an expansion in the manufacturing purchase index.

We remain positive on the Thai stock market for next week. The SET Index is likely to gain positive sentiment from US GDP and property-market figures; long-term fund/retirement mutual fund (LTF/RMF) support from institutional investors; and positive-momentum foreign buying.

However, we expect higher risks from the looming US "fiscal cliff", which will put pressure on markets.

Next week's investment strategy is to choose stocks that are expected to report robust/higher-than-expected earnings performance for the fourth quarter, those with more opportunity for upward revision for earnings, and those with low foreign holding. These include KTB, SPCG, NMG, PTT, PTTEP, PTTGC, ROBINS, THAI, AAV, TICON and MAJOR.

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Expectations of a new wave of foreign fund inflows after the US Federal Reserve announced its QE4 programme should help keep the Thai market buoyant in the final two weeks of 2012. However, foreign buying is likely to ease as portfolio managers begin their Christmas holidays, though any slowdown could be partly offset by year-end purchases by LTFs/RMFs.

We also anticipate an increase in volatility as the year draws to a close due to: profit-taking by short-term investors following the SET's gain of 6 per cent over the last month; looming changes in the SET50 index; and continuing concerns over the US "fiscal cliff". Any stock market correction is unlikely to last long given the ultra-low interest rate environment and recent improvements in domestic economic data, as well as further evidence of recovery in the US and Chinese economies. Hence we view market pullbacks as an opportunity to increase weightings, particularly in big-cap stocks in banking, telecom, energy and petrochemicals. Many of our previous top picks (particularly in the consumer and tourism sectors) are now trading close to our target prices and therefore offer little upside. Banks have enjoyed an impressive rally in recent weeks but still provide decent value. At last Thursday's close, our favourite stocks in the sector – KBANK, KTB and BAY – offered upside of 15 per cent, 25 per cent and 29 per cent respectively to our target prices.

We recommend buying selective energy names, notably TOP and SCC, due to reduced downside risks for global oil prices and a widening of petrochem spreads. We also expect further gains for telecom stocks following the issue of 3G licences. Our top picks are ADVANC and INTUCH.