

## **Philequity Corner**

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By Ignacio B. Gimenez

### **Who's afraid of the elections?**

One question that we keep receiving from clients is how will the elections affect the stock market? This keeps cropping up perhaps because more opposition senatorial bets are rating high in recent poll surveys. This raises the scenario of an opposition-led (and possibly antagonistic) Senate and the resumption of the impeachment bid against the President.

Time and again, we emphasized that what we should be looking out for is the individual economic and not just the political leaning of each candidate. One can not accurately predict the behavior of any congressional body based on the political affiliation of its members alone. It would be more prudent to check on the background of each member and how they have voted on policy proposals in the past in order to get a better view as to how they will likely vote in the future.

In our article entitled "**Politics: Only in the Philippines**" (*The Philippine Star*, February 5, 2007 issue), we showed a diagram depicting how the Philippine political spectrum is muddled up. Some politicians can easily change political affiliations for any convenient reason. Rabid critics of President Arroyo over the past six years turned into allies almost overnight while some of her former allies jumped over the political fence. This simply indicates that political ideology is almost inexistent in the Philippines.

#### **An antagonistic Senate**

If the results of recent poll surveys turn out to be accurate, the President will be facing the likelihood of an antagonistic Senate. But what else is new? As far as we can recall, the Senate has almost always been more critical of the government's legislative proposals. It has always been the venue of grand inquiries and public hearings in aid of legislation.

But let's face. After all is said and done, major reform measures somehow got through and implemented. The past four Presidents have dealt with less cooperative senates. But the country has probably undergone more economic restructuring under their watch than in any other era. What does this tell us? The past senates may have not always been dominated by political allies of the incumbent presidents. But when economic reform measures became urgent, somehow the senators showed wisdom in rising to the occasion. Fortunately, we have not heard so far from any of the existing senatorial bets regarding any serious economic policy pronouncements that will tend to reverse or disrupt what we have implemented so far.

#### **Resurrecting the impeachment bid?**

While the possibility of an opposition-dominated Senate is real, we have yet to see surveys pointing to a similar scenario taking place in the next House of Representatives. Rightly or wrongly, this is more crucial for the President. Unless her political foes muster the needed numbers, resurrecting the impeachment bid against her may be easier said than done. An opposition Senate will not have an impeachment case to act upon unless this can successfully hurdle the Lower House's approval.

In terms of economic policies, the Lower House seemed to have been more observant of party position. Given that it is usually dominated by allies of incumbent presidents, the Lower House has been more traditionally cooperative with the executive branch. This should provide some

relief to investors in light of the general inclination of the present administration towards market-oriented policies.

**So, who's afraid of the elections?**

Certainly not the investors. We have read several foreign brokers' reports discussing how most of their clients have discounted the elections. They also indicated that any change in the balance of power in the Senate will not materially affect the country's macroeconomic direction. Most of them, as we have admonished our readers and investors, have learned to focus on the economic variables which are more predictable. They know that placing bets on politicians based on political leanings is futile and imprudent.

We have also yet to see any changes in the prevailing positive views on the country's economic and fiscal scenario. What really counts for the investors are the prevailing benign inflation and interest rates, stable currency, and other economic variables. Recent economic data also point to continued investor confidence in the country. Net foreign direct investments rose 33.3% year-on-year to \$633 million in the first two months of the year and more investments are seen to push through in the second semester. The local stock market managed to gain 22.4 points last Friday despite the nearly 150-point fall in the Dow Jones the day before.

What really matters at the moment is for the government to ensure peaceful and credible elections. More violence and perceptions of cheating will only tend to create the unwanted volatility and uncertainty.

To the candidates, we wish you luck just as we encourage you to play fair and put the country's interest ahead of your party and personal convictions.

To the Filipino voter, go out and do your sacred duty. Vote wisely for we only deserve those we vote to power.

*For inquiries and comments, you can email us at [gime10000@yahoo.com](mailto:gime10000@yahoo.com) or [research@philequity.net](mailto:research@philequity.net).*