

**Philequity Corner – July 17, 2004**  
**By Ignacio B. Gimenez**

**Politics has taken a backseat**

The season for political wrangling is upon us once again. Impeachment cases have been successively filed against the President. The arrest of rogue soldiers who were purportedly planning more moves to destabilize and topple the government is now being exploited by some sectors to stir unrest among the military. The plot thickened with the unexplained arrest in the US of a former agriculture undersecretary who was being linked by the opposition to an alleged misuse of funds to favor Mrs. Arroyo's win during the 2004 election.

So what else is new? Do we really have such short memories on how last year's political turmoil took toll on the country and the economy? Are we really prepared to travel down the same bumpy and uncertain road again?

**Everyone has gotten wiser**

Amid all the various tales being rammed down our throats through the media by the spin doctors from both camps, we all have learned to think critically. We all have gotten tired and weary of swinging from end of the political pendulum to the other. Before supporting any political cause, we have to be convinced that there is much more to the effort than just grabbing back power. We have learned to stop sulking in our misery, start counting our blessings, and explore whatever opportunities there are in the horizon that could bring about economic progress.

This apparently is true not only for the individual Filipino but also among investors and the business community. Investors do not wait for circumstances to become perfect before making any decision. They anticipate, forecast and decide. In fact, as early as the fourth quarter of last year, we have seen various foreign investment analysts anticipating the political scenario to become noisy once more around this time of the year. However, this has not stopped them from coming up with a more objective and, thankfully, more optimistic outlook on the economy because they know that there is so much more to consider than just politics. And in our situation, politics has apparently become – rightly or wrongly – the most predictable factor such that they have now learned to look pass this. In other words, regardless of the motives or objectives behind today's political noise, local politics has taken the backseat as far as investors are concerned. Everything now boils down to fundamentals.

**Lessons for political strategists**

In case political strategists would like to know, investors and businessmen nowadays think differently and have stopped being solely beholden to political factors. For instance, the latest coup attempt last February did not really scare investors away because they know that coup attempts and other forms of power grab is already an inherent risk in the Philippines. In the case of the stock market, it has recovered more than what it initially lost during the February coup attempt, consistent with the trend involving the other previous coup attempt and power grab against the Arroyo

Administration (see our February 27 column entitled *Failed coups & the stock market*).

We are not fans of the Arroyo Administration as far as its political moves are concerned. But we have to give it more than just brownie points on the economic front and what has it been doing on the fiscal scenario. For investors, the overriding concerns are:

- **sustainability of economic and earnings growth.** On this front, the government seems to be successful in spurring economic growth beyond the anemic levels that we have achieved in the recent past. The NEDA has recently indicated that GDP growth would approach the 6% level in the second quarter of this year, maintaining the pace set in the first quarter.
- **consistency and commitment to meaningful reforms,** regardless of their impact on political popularity. This is probably one of the biggest achievements of this Administration. In spite of risking popularity, its strict adherence to its reform policies has set the proper environment (i.e. interest and forex stability) for encouraging investments. In fact, they are not concerned if President Arroyo's popularity ratings sink to their lowest levels as this would afford her the opportunity to pursue more unpopular but meaningful reforms. The passage and unrelenting implementation of such fiscal reform measures has also enabled the country to post a budget surplus in April and May. The word in the market is that the same trend will continue on as far as the June figures are concerned.
- **global developments.** Never has this been more apparent than in the last few weeks when we have seen so much volatility in the financial markets arising from fears of interest rate movements in the US. As they say, when the US market sneezes, the whole financial world catches cold. Because of such developments, the global financial and commodities market suffered from so many uncertainties. This spared no one, including the Philippines. In our case, the equities and bond markets suffered losses while the peso came under severe pressure as investors were flocking back to dollar investments. We give credit to our monetary authorities for acting swiftly and brought order and calm in a jittery market. By allowing some leeway for interest rates to rise, they have helped stabilize the peso which was then under severe pressure as investors.

#### **What's on investors' minds now?**

Definitely, it's not just the ongoing domestic political turmoil which is actually the least of their preoccupation. They are now focused on developments in the Middle East. The recent actions by Israel vs. Lebanon have only exacerbated the volatile scenario in the region and this could impact further on oil supply and prices. They also think about how a worsening Middle East scenario would affect the employment prospects for OFWs who had been doing more than just their fair share in helping the country through massive dollar remittances, and what's in it for the economy should the inflow of remittances weaken.

Investors are also monitoring the developments in North Korea and what is in store for the region's security environment. They are also watching the resurgence of terrorist acts in India and if this would spread to other countries.

Beyond these developments, investors are just as keenly interested to know what the government has in mind to mitigate the impact of these developments on the economy given its heavy reliance on imported oil and OFW remittances.

**It's not apathy but just being proactive**

So you see, if investors and businessmen have lost interest in the political wrangling, particularly the impeachment proceedings, it is not because they are apathetic. It is just that, right now, they have so much on their plate and politics has been rendered less relevant by recent global issues which are deemed more worthy of their attention. They have to come up with proper strategies to keep their businesses and the economy. They realize too well that if businesses fail, it is not just their investments that will go down the drain but also the economy as a whole.

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**Announcement:** Philequity Fund Inc would like to inform its shareholders that the company has just recently hired Mr. Hector De Leon as Executive Vice President in charge of sales and marketing. Mr. De Leon was formerly First Vice President and head of sales and marketing and head of capital markets division for Philam Asset Management Inc. He is also concurrently the Chairman of the Board of Trustees of the Investment Company Association of the Philippines. Mr. De Leon obtained his MBA from the Ateneo Graduate School of Business.

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