Philequity Corner (07/16/2007)
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Global Bull Market in a Flat World

A couple of weeks ago the market started correcting. We got a lot of inquiries from readers and shareholders asking us why. This prompted us to write the article titled "Why is the market correcting? (July 2, 2007)." We said that we maintain our bullish stance while we explained the causes of that recent correction. At the same time, we also mentioned that the timing of corrections is harder to predict, more so the depth and length of these price pull-backs. True enough and typical of a bull market, the PSE index (while least expected) made new highs last week closing at 3,786.

In the US, the S&P 500 index likewise climbed to a record 1,552 on Friday, surpassing levels reached during the internet bubble. This came a day after the Dow Jones Industrials Average (DJIA) racked up its biggest one-day point-gain in more than four years. The DJIA crossed 13,900 for the first time and hit an all-time high as several major companies led by General Electric announced multi-billion share-repurchase plans.

Note that the current bull-run in equities is not only happening in the Philippines and the US but is a worldwide phenomenon as seen from the table below. In fact, the MSCI World Index has expanded at an annualized rate of 14.16% during the last five years and is currently up 11.5 percent year-to-date.

Performance of MSCI Indices (using US$ as base)

			Annualized Return	
EMERGING MARKETS	**YTD**	**1 Yr**	**3 Yr**	**5 Yr**
CHINA	30.48%	91.44%	46.33%	32.64%
INDIA	21.78%	63.38%	51.05%	39.51%
INDONESIA	22.85%	65.24%	46.10%	39.21%
KOREA	36.58%	52.53%	43.84%	24.62%
MALAYSIA	31.12%	62.21%	22.04%	15.77%
PAKISTAN	40.04%	36.76%	30.82%	38.08%
PHILIPPINES	36.81%	95.55%	43.52%	27.22%
TAIWAN	16.40%	36.12%	16.71%	9.45%
THAILAND	39.17%	49.35%	19.58%	25.60%
EM ASIA	27.95%	57.86%	35.46%	22.91%
EM LATIN AMERICA	34.89%	76.72%	55.51%	40.90%
EM EUROPE & MIDDLE EAST	14.00%	38.38%	33.28%	33.60%
EM (EMERGING MARKETS)	25.58%	56.03%	38.61%	28.42%
			Annualized Return	
DEVELOPED MARKETS	**YTD**	**1 Yr**	**3 Yr**	**5 Yr**
NORTH AMERICA	10.71%	25.97%	12.97%	11.95%
PACIFIC	8.72%	19.46%	16.72%	14.07%
EUROPE	14.14%	36.44%	22.79%	18.23%
THE WORLD INDEX	**11.54%**	**28.29%**	**16.49%**	**14.16%**

Source: www.msci-barra.com

As you can see from the table, the Philippine market is up 95.6 percent on a one-year basis and up 36.8 percent year-to-date because of the peso's appreciation. In fact on a year-on-year basis, the

Philippine market is the second best performer in the whole world, next only to Peru's 126 percent return. In peso terms, the Philippine market is only up 71 percent on a one-year basis and up 27.7 percent year-to-date. This goes to show that investing in emerging markets such as the Philippines benefits not only from the rising markets but also from the appreciating currency.

Meanwhile according to MSCI, the fastest growing regions are the EM Latin America, EM Europe & Middle East and EM Asia which have grown at an annualized rate of 40.9 percent, 33.6 percent and 22.9 percent, respectively during that last five years. As a group, Emerging Markets have already returned 25.6 percent year-to-date.

Developed markets such as Europe and the Pacific (which includes Australia, Hong Kong, Japan and New Zealand) have returned 18.2 percent and 14.1 percent, respectively during the last five years. Meanwhile, North America (which includes the US and Canada) have expanded at an annual rate of 11.95 percent during the last five years and 10.7 percent year-to-date.

The boom also extends not only to the equities market but to commodities such as oil and copper which are rallying back to all-time highs set last year. The price of NY Light Sweet Crude, for example, is already up 19.8 percent year-to-date while the price of copper is up 26.4 percent over the same period.

With many markets at record highs, it is not surprising that some investors may be getting nervous and seemingly suffering from acrophobia. We in Philequity, however, continue to be optimistic on Philippine equities and global markets in general because of the following reasons:

1) Global growth and trade are booming. While US growth has slowed, the growth in the rest of the world has stayed very strong, with China, India, Europe and the commodity-producing countries leading the pack. Today, over 18 percent of the world's GDP growth is generated by China's economic growth. Thus, the world economy is much more diverse today than it has ever been. As Thomas Friedman, author of "The Lexus and the Olive Tree" and "The World is Flat", puts it "*Globalization is enabling individuals, corporations, and nation-states to reach the world farther, faster, deeper and cheaper than ever before…*"
2) Inflation is relatively low despite rising commodity prices. For one, globalization continues to bring down traded goods prices. Cheap Chinese goods, for example, tend to bring down prices of similar goods produced by higher-cost producers. Second, the rising trend toward business process outsourcing (BPOs) has brought down wage levels.
3) On the corporate front, a lot of companies are now sitting on piles of cash with very little debt. These companies are either looking to expand thru mergers and acquisitions, or opt to reward shareholders with share buy-backs. Both activities tend to push stock prices higher.
4) Many major investment houses and newsletters continue to make bearish calls on global equities. Using a contrarian's argument, the proliferation of bears is a very bullish omen.
5) Lastly, because of global financial integration, a lot of investors, mutual funds, hedge funds, private equity fund, etc. are now trading all over the world. All these liquidity are thus spurring the markets to new highs.

While we advise investors to remain cautious on the market because of the current craze over highly speculative issues, we maintain our long-term bullish stance. Notwithstanding the current spate of IPOs which could sap liquidity in the short-term, we believe that in the long-run, these new issues are beneficial since they will provide the market with more depth and breadth.
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