Philequity Corner (June 29, 2009)
By Valentino Sy

Deep or Shallow?

Last week started on a dismal note with the benchmark S&P 500 Index down 3.06 percent and the MSCI Emerging Markets Index down 1.9 percent on Monday. Following the declines in the US and emerging markets, equities in the Philippines pulled back in tandem with the US markets.

The declines were not unexpected as technical measures have indicated that a pullback has been long overdue. In fact, our recent article (see *Correction: What now?* In the June 22, 2009 issue of **The Philippine Star**) argued for a case of profit taking/healthy correction.

Foremost among the minds of investors now is whether the correction we are experiencing is going to be deep or shallow given that the market recovery since March has been fast and furious as mentioned in last week's article.

Deeper recession

Equities pulled back sharply on Monday in reaction to a report by the World Bank that the global recession would be deeper than it predicted in March. Despite the recent signs of economic stability, the global recovery would be "much more subdued than might normally be the case," according to the report.

The World Bank sees 2009 global GDP contracting by 2.9 percent, worse than its March forecast, which predicted it would shrink at a rate of 1.7 percent. Subdued recovery is expected in 2010, with the global economy growing by 2 percent.

Meanwhile, global trade is expected to plummet 10 percent this year, the sharpest drop since World War II.

V, W, U or L?

As investors weighed the World Bank's forecast of a subdued economic recovery, risk aversion moved back to center stage last week. Add to this is Nouriel Roubini's latest statement that the risks of a double-dip, W-shaped recession may be growing.

Roubini, who correctly predicted the global crisis two years ago, said that "*the recovery would likely be anemic as the burden of huge private and public sector debts limit the ability of the households, financial firms and corporations to lend, borrow, spend and invest*."

He added that the increase in some asset prices (particularly oil), combined with rising government bond yields (due to ballooning fiscal deficits in many countries) and tax increases (as governments seek to avoid debt-refinancing risks) may lead to a renewed slowdown leading to a double-dip, W-shaped recession.

Still, some remain hopeful on the possibility of a V-shaped or a fast recovery. In fact, this is the most common type of recovery – one that occurred during the bear market earlier this decade (after the tech bubble). Just as economists and analysts were caught off-guard by the sharpness of the downturn, history says they could be surprised by the speed and the strength of the recovery.

Many are also pointing to a U-shaped recession where the economy stagnates and continues to decline for a period of time (more than 24 months) before finally recovering.

The least likely path is the L-shaped recession similar to what happened in Japan in the 1990s, where the economy would register flat or no growth several years after the recession.

Sharp or Mild?

The current correction in the S&P 500 Index is the fourth pullback of at least 5 percent since the March 6th lows. Below we highlight each of the four pullbacks within the overall uptrend. As shown, the recent decline (from June 11th to June 23rd) is the sharpest correction of this budding bull market with a decline of 7.05 percent. This also registered the longest pullback yet spanning 8 days.

S&P 500 Index (March 2009 to Present)

Date	High	Date	Low	% Chg	#Days
26-Mar	832.98	30-Mar	779.81	-6.38%	2
17-Apr	875.63	21-Apr	826.83	-5.57%	2
8-May	930.17	15-May	878.94	-5.51%	5
11-Jun	956.23	23-Jun	888.86	-7.05%	8

Source: Stockcharts.com, Philequity Research

While many still believe that the run-up since March is just another bear market rally, the chart above puts things into perspective. From the March lows, the S&P 500 index is still up 38 percent and it just off by 4 percent from its peak registered last June 11.

With regard to Philippine equities, the PSE Index (see below) is still up 41.7 percent from its March lows and just off by 5.7 percent from its peak registered last June 15. More importantly, the index is above both the 50-day and 200-day moving averages which is long-term bullish.

PSE Index (March 2009 to Present)

Source: Stockcharts.com

Markets remain resilient

Just as it is difficult to forecast how deep and how long recessions will last, predicting how sharp or how mild corrections will be is even harder. What we believe, however, is that the worst of the global crisis is behind us. And unless the unexpected happens (another Lehman-like cataclysm), the lows registered on March 6 for the S&P 500 Index will not be retested and is the low for a generation.

The latest pullback definitely felt more negative than previous ones because we've had it so good lately (i.e. prices are overextended near-term). However, as of now, it's still nothing but a normal pullback within an uptrend.

For comments and inquiries, you can email us at info@philequity.net. You can also view our archived articles at www.philequity.net or www.yehey.com/finance.