

Philequity Corner (May 17, 2010)

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The Noynoy Upgrade

With the overwhelming victory of Noynoy in the last election, we are upgrading our PSEi target to 3,500. Over the long-term, we are forecasting the PSEi to retest the all-time high of 3,900.

Destiny

Cory's demise altered the course of politics and destined Noynoy as the country's next leader. In a previous article about Cory, we mentioned that "*A victory for Noynoy would bring in new hope, a new beginning to Filipinos just like what Cory did in 1986. Moreover a decisive victory would be a clear catalyst for the stock market to move higher.*" (See *A New Hope in Philippine Politics...*, September 21, 2009 issue of **The Philippine Star**). Both Cory and Ninoy are icons for change and of democracy. These same ideologies have catapulted Noynoy to the presidency. Indeed, this is destiny.

Post-Election/People Power Effects on the Stock Market

To gauge the effect on the stock market, we are highlighting the performance of the PSE Index after each election day and/or after each People Power revolt. The table below shows investors' behavior, as reflected in the price performance of the PSE Index, following a presidential election or an overthrow of a president. The information this data provides may serve as guidance to the market's probable direction moving forward. Nevertheless, other fundamental factors may play a larger role in influencing the general movement of the market.

President	Election Day*	1 Day	1 Week	1 Month	6 Months
Cory	25-Feb-86	+74.4%	+84.1%	+96.2%	+222.1%
FVR	11-May-92	+7.5%	+8.2%	+28.1%	+9.4%
Erap	11-May-98	+0.2%	-3.7%	-12.6%	-18.7%
GMA	20-Jan-01	+17.6%	+17.6%	+15.2%	-4.9%
	10-May-04	-2.8%	-1.9%	-0.5%	+25.6%
Noynoy	10-May-10	+3.9%	+6.0%	-	-

Note: * Dates on Cory and GMA (first term) election day pertain to dates of their respective swear ins after each People Power.

Elections bring a sense of change to the stock market and, normally, a general optimism among investors. This is especially true if the likely winning presidential candidate is widely acceptable or the outgoing administration is hounded with controversies. Barring any drastic events in the global markets, we can surmise that in the very short-term the changing of the guards has much significance in the performance of the local bourse.

Outperformance of the PSEi

After the elections, the PSEi performed better than other markets. The table below compares the PSEi against peer indices in the region and in the US. The relative strength of the local bourse compared to the rest of the markets is proof of Noynoy's acceptability as president.

PLDT, as the biggest component of the index, has dragged the recent ascent of the PSEi. If not for PLDT's more than 20% weight, the PSEi could have risen more – breaking convincingly past the 3,330 resistance level.

	Index Level		Percent Gain / (Loss)
	7-May	14-May	
Philippines	3,142.06	3,330.42	+5.99%
Thailand	768.55	768.79	+0.03%
Indonesia	2,739.33	2,858.39	+4.35%
Malaysia	1,332.89	1,339.36	+0.49%
Singapore	2,821.11	2,855.21	+1.21%
HongKong	19,920.29	20,145.43	+1.13%
DJIA	10,380.43	10,620.16	+2.31%
S&P	1,110.88	1,135.68	+2.23%
Nasdaq	2,265.64	2,346.85	+3.58%

Catalysts for the PSEi

From a technical standpoint, the PSEi is set to test the next resistance level at around 3,500. We believe this will highly depend on the movement of the global markets. If the global markets soften, the PSEi might consolidate between the 3,100 to 3,350 range. If markets stabilize, our immediate target of 3,500 is on track. And if the major markets resume their upward trek, then our long-term target of 3,900 can be attained.

The catalysts for the PSEi to move higher are:

1. Concrete and credible plan of the administration to address the fiscal deficit.
2. Well-accepted appointments of principled, honest, and competent cabinet secretaries, especially the economic team.

The risks, however, are:

1. A sharp and deep correction for the global stock markets which will affect the PSEi.
2. Disappointments in the appointments of cabinet members.
3. Failure of Noynoy to govern because of political gridlocks with GMA controlling the Lower House and Villar's Nacionalista Party in command of the Senate.
4. Failure to offer a concrete plan to address the widening budget deficit.



Lipper Award for Philequity

Recently, Philequity Management was awarded the Lipper Fund Awards in the following categories:

Best Equity Philippines fund (3 years): Philequity Fund, Inc.

Best Equity Philippines fund (5 years): Philequity Fund, Inc.

Best Bond Philippine Peso fund (5 years): Philequity Peso Bond Fund, Inc.

The Lipper Fund Award is a prestigious international award given to the world's top performing funds across all asset classes. Integrated under Thomson Reuters, the Lipper Fund Awards take place in 21 countries in Asia, Europe, Middle East, North Africa, and the Americas.

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