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People Power and the Stock Market

Twenty five years ago, the world saw the first successful popular non-violent revolution in the Philippines. The 1986 Philippine Revolution (more popularly known as the People Power Revolution) was the culmination of a long campaign of civil resistance, mass demonstrations and prayer rallies that ended the 20-year Marcos regime and marked the restoration of democracy in the country.

"People power" later on will be emulated around the world. It became an inspiration to the non-violent resistance of people that toppled Soviet-style communist states in Eastern Europe. It also stimulated the movement toward democratization of repressive regimes and dictatorships in other parts world. The same picture of mass political defiance is now sweeping across the Middle East and North African region (MENA).

The market and the economy prior to 1986 People Power

The Philippine stock market and the Philippine peso have collapsed during the years leading to the 1986 People Power Revolution, in large part due of the profligate spending of the government and the ballooning external debt problem in the country.

On August 21, 1983, Sen. Benigno Aquino Jr. was assassinated at the Manila International Airport upon returning home from exile in the US, throwing the country into economic and political chaos.

On October 17, 1983, it was announced that the Philippines was unable to meet interest payments on its foreign currency debt of $24.4 billion and was asking for a 90-day moratorium on its payments. Although an emergency loan arrangement with the IMF was reached, the Philippines agreed to strict conditions to obtain the funding: including the devaluation of the peso and tightening of domestic credit.
As a result, interest rates rose to as high as 40 percent and real Gross National Product (GNP) fell 7.3 percent both in 1984 and 1985.

	1978	1979	1980	1981	1982	1983	1984	1985
Stock Market								
PSE Index (end-of-period)*	40.26	35.77	34.30	22.80	24.01	35.38	24.34	29.70
General Economy								
GDP growth	5.2%	5.6%	5.1%	3.4%	3.6%	1.9%	-7.3%	-7.3%
Peso-US$ (end-of-period)	7.375	7.415	7.600	8.200	9.171	14.002	19.760	19.032
Inlfation Rate (%)	7.1	17.4	17.6	10.8	10.4	9.5	50.0	22.6
Interest Rate on T-bills (%)	11.0	12.2	12.3	12.9	14.4	14.5	37.0	27.0

** Note that there were two exchanges at that time, the Makati and Manila stock exchanges.*
The Makati Composite Index was used in lieu of the PSE Index.

Source: NSCB, BSP, Philequity Research

Extremely depressed valuations

In combination with a domestic financial scandal when a businessman fled the country in 1981 with debts estimated at Php700 million, the escalating unrest and political crisis that followed Aquino's assassination, and the peso devaluation coupled with sky-high interest rates that followed the debt moratorium, the Philippine stock market plunged. In 1984 alone, the market declined by roughly 50 percent in dollar terms.

The sharp decline of the peso and the market created some extreme situations. Stocks such as PLDT were selling at a price-to-earnings ratio (P/E) of less than 2, San Miguel Corp. (SMC) at three times earnings, and at up to 80 percent discount to their asset values.

Stocks surge as Marcos departs

The 1986 People Power Revolution provided an opportunity of a lifetime for Philippine investors. It triggered the most powerful bull market in Philippine stock market history due to the extremely depressed values of stocks and the instant worldwide fame and coverage that the country gained following the popular democratic revolt.

When the market reopened on February 26, 1986, many of the issues listed doubled in price in a matter of days. The Philippine stock market became one of the best performing markets in the world in 1986 and early 1987 (just prior to the 1987 coup attempt).

PLDT which traded at Php 7.43 (adjusted for dividends) on February 21, 1986 jumped to Php 10.33 when the market opened on February 26, 1986. After a year the stock was already at Php 50.25 and reached as high as Php 143.05 by July 21, 1987.

SMC, which was controlled by Marcos associate Danding Cojuangco, initially slid to Php 0.60 from Php 0.69 per share. But after a year, the stock surged to Php 3.90 and reached a high of Php 6.73 afterwards.

Other issues like Atlas Consolidated Mining (AT), Philex Mining (PX) and Lepanto Consolidated Mining (LC) performed similarly.

	Price on 21-Feb-86	Price on 26-Feb-86	*1-day Chg (%)*	Price on 21-Feb-87	*1-yr Chg (%)*	Price on 21-Jul-87	*Since 2/21/86 (%)*
PLDT	7.43	10.33	*39.0%*	50.25	*576.3%*	143.05	*1825.3%*
SMC	0.69	0.6	*-13.0%*	3.9	*465.2%*	6.73	*875.4%*
AT	2.1	2.9	*38.1%*	11.75	*459.5%*	37	*1661.9%*
PX	0.32	0.41	*28.1%*	1.21	*278.1%*	2.07	*546.9%*
LC	0.0118	0.0164	*39.0%*	0.0473	*300.8%*	0.2111	*1689.0%*

Source: Technistock, Philequity Research

The stock market would later trade sideways during the 1988 to 1991 period when the Philippine economy would be marred by several coup attempts, a devastating earthquake, and the Mount Pinatubo eruption.

EDSA Dos

In January 2001, a repeat of the people power revolution happened in EDSA. Dubbed as EDSA 2 (pronounced as EDSA Dos), a four-day revolution peacefully overthrew President Joseph Estrada who was then facing an impeachment trial on allegations of corruption.

On January 17, 2001, Senator Pimentel resigned as Senate President and walked out of the impeachment proceedings together with 9 opposition senators and 11 prosecutors after the Senate voted against the opening of an envelope allegedly containing crucial evidence against President Estrada. Shortly thereafter, people started gathering at the EDSA Shrine which would swell over the next four days.

On the 3rd day (Jan. 19, 2001), the Philippine National Police and the Armed Forces of the Philippines withdrew their support for President Estrada.

The next day (Jan. 20, 2001), Gloria Macapagal Arroyo took her oath at EDSA, becoming the 14th president of the Philippines.

The stock market during People Power 2

Similar to what happened in the first people power in 1986, the stock market reacted positively during People Power 2. The first jump in prices happened on November 6, 2000 (after a long 5-day holiday) when rumors arose that an impeachment case against Estrada was going to be filed by the House of Representatives. The PSE Index instantly rose 16.5 percent, while blue-chip stocks like PLDT, Ayala Land, Inc. (ALI) and SM Prime Holdings (SMPH) gained, 13.5 percent, 26.6 percent and 32.5 percent, respectively.

The second jump in prices occurred after Estrada left Malacanang. When the market opened on January 22, 2001, SMPH and ALI leapt to ceiling levels (to the maximum level of 50 percent gain in one day), while PLDT gained as much as 22.5 percent. The PSE Index, meanwhile, increased as much as 17.6 percent intraday.

	Close on 31-Oct-00	**Close on 6-Nov-00**	***Chg (%)***	**Close on 19-Jan-01**	**High Price on 22-Jan-01**	***Chg (%)***
PLDT	775	880	*13.5%*	865	1060	*22.5%*
ALI	3.33	4.25	*27.6%*	4.58	6.83	*49.1%*
SMPH	3.2	4.24	*32.5%*	4.32	6.48	*50.0%*
PSE Index	1287.85	1500.1	*16.5%*	1452.9	1708.06	*17.6%*

Source: Technistock, Philequity Research

People Power in MENA is bad for the Philippines

Unlike the 1986 and 2001 People Power Revolutions in the Philippines which were good for the Philippine stock market, the people power revolts currently happening in the MENA region have negative effects on our market. In just over a week, crude oil prices (NY Light Sweet crude) rose as much as 18 percent from $86 per barrel last February 15 to more than $102 per barrel by February 24. Although the cutback in the supply of crude oil (especially the oil coming from Libya) is manageable, investors are worried that the unrest may spread to bigger oil producing countries like Saudi Arabia.

It is especially worrisome to the Philippines given that Saudi Arabia is the top destination of Overseas Filipino Workers (OFWs). One out of five OFWs work in Saudi Arabia according to survey by the National Statistics Office (NSO) in 2009.

Oil above $100 per barrel on a sustainable basis is definitely bad for an oil-importing country like the Philippines. Not only are we an oil importer but we are also a food importer. Higher oil and food prices will definitely impact the Filipino consumer. Furthermore, surging oil prices (being a direct cost to most manufacturing and industrial companies) also means that corporate earnings may be at risk if prices remain high for a longer period of time. This is the reason why the PSE index has already gone down by 15 percent to 3,737 from its 4,413 peak back in November 2010.

As discussed in last week's article (see *The Comeback*, February 21, 2011), it is very difficult to predict the turn during corrections especially since the situation in MENA remains very fluid. While further corrections in the market may happen, we believe that in time, the market will recover, especially since it has already fallen so much. In the meantime, long-term investors should start looking at fundamentally sound issues that have fallen to bargain levels and consider "cost-averaging" or buying stocks and equity mutual funds on a staggered basis.

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