Philequity Corner (04/11/2011)
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Emerging Markets Shine Anew

Many of our readers and investors have been asking us for our market outlook. In today's article, we are printing the strategy report of our affiliate Wealth Securities, Inc. This encapsulates our outlook also.

Below is Wealth's market outlook released April 5, 2011:

Wealth Strategy Report

The MSCI Emerging Markets Index (EEM) clearly broke out of its consolidation pattern last week, indicating that prices are likely headed to new highs (see chart). Note that the price is now well above the 21-day, 55-day and 144-day moving averages which means that the technical picture is now bullish on all time horizons (short-, medium-, and long-term). Also, the MACD indicator is heading higher which means that the upside momentum is increasing.

This is similar to what happened in late-July 2010 prior to the huge rally up to November last year. Any pullback in EEM is now seen as an opportunity to BUY.

Source: www.stockcharts.com

The Consolidation Period – EM underperforms DM

After peaking in November 2010, emerging markets have underperformed developed markets up until two weeks ago.

On one hand, concerns of inflation in emerging markets (especially in China and India) and consequent hike in interest rates by their central banks have caused investors to pull money out. This move was further exacerbated by the rising geopolitical tensions in the Middle East and North Africa (MENA) at the start of the year.

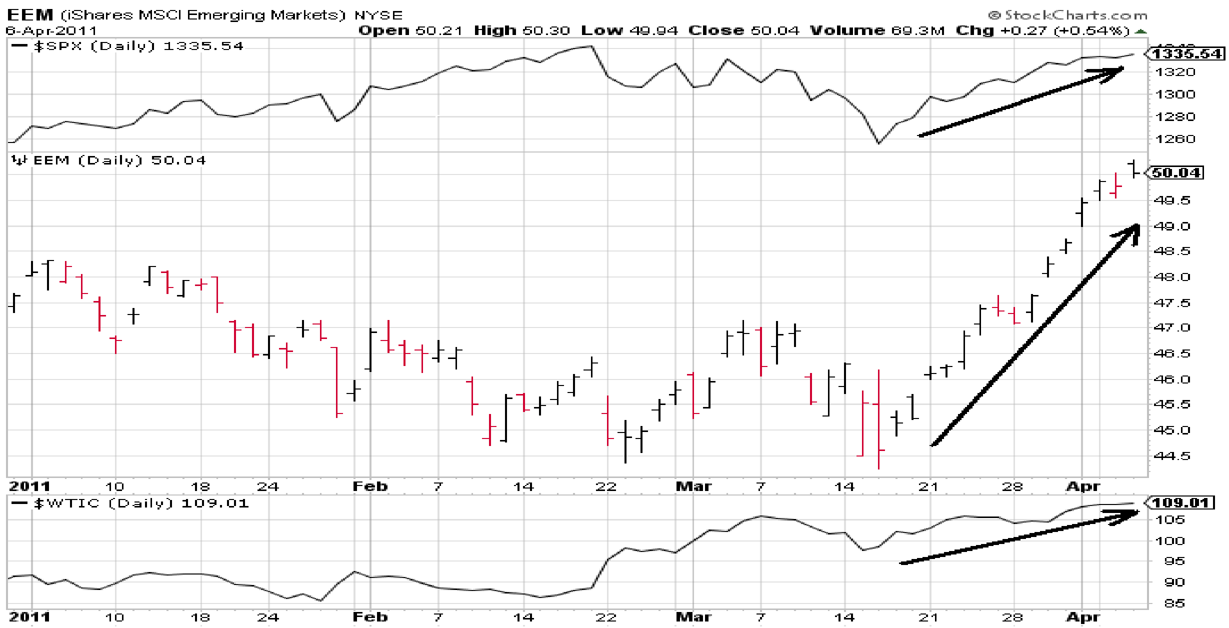
On the other hand, there was positive news coming out of the US with strong earnings results on the corporate front, and healthy economic growth - which is now expected to range between 3.5% and 4% of GDP for 2011. Coupled with the still ultra-accommodative monetary environment and the FED's QE2, funds flowed back to the US and other developed markets at the expense of emerging markets.

According to EPFR Global, which provides fund flows and asset allocation data to financial institutions around the world, emerging market equity funds lost a total of $26.8 billion from the start of the year to the week ending March 23.

EM now moving higher with DM

Since March 16, however, emerging markets have started to move with developed markets higher. The chart below shows EEM and the S&P 500 (upper pane) index increasing in tandem. This is despite the spate of bad news:

1) Crude oil prices (lower pane) going higher
2) Rising tensions in the Middle East as the US and allies implement a no-fly zone in Libya
3) Ongoing crisis in Japan and the danger of nuclear fallout from facilities at Fukushima



Source: www.stockcharts.com

Meanwhile, JP Morgan and Goldman Sachs, who both recommended “underweight” emerging markets back in November 2010, have upgraded EM to a “neutral” stance by early-March 2011. Two days ago, Goldman Sachs revived its bullish call on emerging markets. We expect other investment banks to turn bullish, especially now that the technical picture has turned positive.

CBs ahead of the curve as inflation eases

Another major concern last year, which had a negative effect on stocks, was China’s tightening. Being an engine of growth to the world, a deceleration in China’s growth was feared to likely put a major dent in the global economy’s recovery. Since December 2010, the Bank of China has already raised rates four times and is now seen to be ahead of the curve. Our own Bangko Sentral ng Pilipinas, likewise, raised its policy rates by 25 basis points two weeks ago.

Meanwhile, inflation across emerging markets has softened. Indonesian inflation has eased to 6.6% in March from 7% in February. China too appears to be getting a handle on prices with inflation easing to 4.9% during the first two months of 2011 after peaking at 5.1% in November 2010. With inflation abating, we can expect a slower pace of monetary tightening which should be bullish for stocks.

Sentiment on EM improves

After weeks of outflows from emerging market funds, investors finally appear to be coming back in. The most recent data from EPFR Global showed inflows totaling $2.6 billion for the week ending March 30. This is the highest level in months and a big turnaround from the last week's $2.7 billion outflow.

ASEAN markets have bottomed and are starting to recover

As emerging markets proved resilient to rising oil prices and to events in Japan & MENA, ASEAN markets have also started to recover. We believe that we have already seen the bottom of the recent correction. We also believe that ASEAN markets, including that of the Philippines, are now in the process of retesting their previous highs.

Thailand's SET Index, for example, which at one point was down 9.3 percent for the year, is now up 5.3% year-to-date. Last week, the high registered last January 2011 was already breached.

Malaysia's FTSE KLCI has broken out of its consolidation pattern. At its lowest, it was down 2.9% for the year. It is now up 2.8 percent year-to-date.

Indonesia's JCI has recovered substantially from this year's lows when it was down 10.6% for the year. Now it is up 0.7% year-to-date.

Similarly, the Philippines & Singapore markets are rebounding. At their lowest, the PSEi was down 11.8 percent for the year, while FTSE STI was down 8.5 percent. The PSEi is now up by 0.4 percent year-to-date, while FTSE STI is down by only 0.6 percent over the same period.

Country	Index	Current Price	%Change Year-to-Date	Year Low	%Change as at Year Low
Thailand	SET Index	1,087.46	5.3%	937.06	-9.3%
Malaysia	FTSE KLCI	1,561.93	2.8%	1,474.38	-2.9%
Indonesia	JCI	3,730.58	0.7%	3,309.62	-10.6%
Philippines	PSE Index	4,219.43	0.4%	3,705.18	-11.8%
Singapore	FTSE STI	3,171.65	-0.6%	2,919.98	-8.5%
** Prices as of 7 April 2011*					

Source: Technistock, Wealth Securities Research

Bullish trend re-affirmed, BUY PHILIPPINE STOCKS

As seen above, emerging markets including the Philippines have turned positive both on technical factors and sentiment. Funds have also started to pile in as inflation appears to be softening and China's rate hikes appear to be near the end rather than at the beginning.

Despite exogenous shocks (MENA uprisings, high crude oil prices, Europe's debt woes, Japan's earthquake+tsunami+nuclear meltdown), we believe that the strong economic & corporate fundamentals would prevail and that emerging markets would continue to move in an upward direction over the long-term. Eventually, we expect the Philippine market to retest its previous high of 4413, and make new highs thereafter.

For the full report, go to www.wealthsec.com.

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