Philequity Corner (January 2, 2012)
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2011 Stock Market Scorecard

2011 proved to be a very difficult year for global stock markets. As mentioned in last week's article (see *Santa Claus – In the Nick of Time*, December 26, 2011), a crosscurrent of macroeconomic headwinds and natural calamities contributed to the year's heightened market volatilities.

On top of the list was the European sovereign debt turmoil which escalated as leaders repeatedly failed to craft concrete solutions. Then there was the near default on US government debt as dysfunctional politics caused the country to suffer an unprecedented downgrade on its credit rating. Emerging markets also faced mounting inflation pressures due to sharp fluctuations in the prices of commodities, especially oil amid political upheaval in the MENA region. Japan's triple calamity (earthquake + tsunami + threat of nuclear fallout) also spooked the global stock markets. Meanwhile, overall economic growth remain weak as US growth faltered and China and other emerging markets showed signs of slowing down.

Given this backdrop, stock markets struggled overall in 2011 as the year saw a renewed flight-to-safety and asset deleveraging theme. In fact, only 10 markets managed to post positive returns for the year according to Bloomberg data. Of those 10, three came from the ASEAN region which performed well beyond expectations. Meanwhile, among major markets only the US Dow Jones Industrial Index was able to post a gain for the year.

Philippine market & other ASEAN markets top the region

With global economic growth slowing down and Europe in turmoil, the major ASEAN countries which have strong domestic economies and healthy fiscal and external positions became the de-facto safe haven for investors.

The Philippine market was the best performing market in the Asia-Pacific region. Its modest gain of 4.1 percent for 2011 shows how difficult the year was to generate returns. Indonesia came in second with a rise of 3.2 percent, while Malaysia came in third with a gain of 0.8%. Thailand slipped a bit, losing 0.7 percent for the year.

Asia Pacific	Index	Last Price	2011 Annual Chg (%)
Philippines	PSEi	4,371.96	4.1%
Indonesia	JCI	3,821.99	3.2%
Malaysia	KLCI	1,530.73	0.8%
Thailand	SET	1,025.32	-0.7%
New Zealand	NZ 50	3,274.71	-1.0%
South Korea	KOSPI	1,825.74	-10.0%
Australia	ASX 200	4,056.60	-14.5%
Singapore	STI	2,646.35	-17.0%
Japan	Nikkei 225	8,455.35	-17.3%
Hong Kong	Hang Seng	18,434.40	-20.0%
Taiwan	TWSE Index	7,072.08	-20.2%
India	SENSEX	15,454.92	-23.0%
China	CSI 300	2,345.74	-25.0%
Vietnam	Ho Chi Minh Idx	351.55	-27.5%

Source: Bloomberg

Other Asia-Pacific markets hit hard

Except for New Zealand which declined slightly in 2011, other Asia-Pacific markets suffered double-digit declines. Fears of a global slowdown caused export-heavy countries such as China, Taiwan, Hong Kong, Singapore, Japan, Australia and South Korea to post huge losses in their markets. Meanwhile, surging inflation and the consequent monetary tightening in India and Vietnam caused their markets to pull back sharply.

Dow ends higher while the S&P 500 index is flat

The surprise of the year was the US markets which performed relatively well amid the turmoil in Europe even as the US government flirted with a national default and suffered a historic downgrade on its credit rating. On a positive note, earnings per share of the S&P 500 are on track to rise for 16 percent in 2011, beating the earnings estimates of analysts. Moreover, the US economy seem to be muddling through with consumer spending showing resilience and job creation showing signs of gradual recovery.

With the positives balancing much of the negatives, the Dow Jones Industrial Index was able to post a positive return for the year, gaining 5.5 percent. The S&P 500 ended flat for the year, while the tech-laden Nasdaq Composite Index ended slightly down by 1.8 percent.

World	Index	Last Price	2011 Annual Chg (%)
US	DJIA	12,217.60	5.5%
Ireland	ISEQ Index	2,901.82	0.6%
US	S&P 500	1,257.60	0.0%
US	Nasdaq Comp	2,605.15	-1.8%
UK	FTSE	5,572.28	-5.6%
Switzerland	SMI Index	5,936.23	-7.8%
Canada	TSX Comp	11,955.10	-11.1%
Netherlands	AEX	312.47	-11.9%
Spain	IBEX 35	8,566.30	-13.1%
Germany	DAX	5,898.35	-14.7%
France	CAC 40	3,159.81	-17.0%
Brazil	Bovespa	56,754.10	-18.1%
Portugal	PSI General	2,167.44	-20.4%
Russia	RTS Index	1,380.49	-22.0%
Italy	MIB Index	15,089.70	-25.2%
Greece	Athex Comp	680.42	-51.9%
Europe	Stoxx 600 Index	244.54	-11.3%
EM	MSCI EM Index	916.39	-20.4%

Source: Bloomberg

European markets finished steeply lower

At the center of this year's problems is Europe where most major markets ended steeply lower. Greece and Portugal which have already received bailout packages have declined 51.9 percent and 20.4 percent in 2011, respectively. Italy, eurozone's third biggest economy and now the focal point of the crisis, lost 25.2 percent for the year. Meanwhile, Germany and France which will bear much of the restructuring of eurozone debts also performed poorly, down 14.7 percent and 17 percent, respectively.

The biggest comeback story in Europe is Ireland where Dublin's ISEQ index rebounded 24 percent from its September lows to finish the year slightly higher with a 0.6 percent gain.

Emerging markets fared worst as growth stalls

Amid fears of a global recession, contagion from Europe and asset deleveraging across markets, emerging markets declined the most in 2011. Emerging market economies such as Brazil, Russia, India and China (BRICs) are experiencing slowdowns in growth as declining external demand from US and Europe have started to take effect.

As a result, the MSCI Emerging market index is down 20.4 percent for the year which is worse than the 11.3 percent loss in Europe's Stoxx 600 index. The MSCI Latin American Index dropped 21.5 percent while the MSCI Asia ex-Japan Index shed nearly 20 percent in 2011. Meanwhile, the MSCI Eastern Europe Index fell 25 percent as its members suffered for their proximity to the eurozone.

Philequity Fund up 6.12 percent in 2011

Despite several major event risks which have contributed to this year's heightened volatility and difficult trading environment, our flagship Philequity Fund finished the year remarkably well. Philequity Fund gained 6.12 percent in 2011 compared to the benchmark PSE index's 4.07 percent return.

The fund also posted a 3-year compounded annual growth rate (CAGR) of 39.25 percent, a 5-year CAGR of 13.6 percent and a 10-year CAGR of 18.56 percent as of December 29, 2011.

We wish our shareholders and readers a Happy and Prosperous New Year !!!

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