

Philequity Corner (January 7, 2012)

By Valentino Sy

Global Bull Market

Global equities posted strong weekly gains to start the new year, with S&P 500 index closing at a five-year high after the much dreaded US Fiscal Cliff event was avoided. Friday's US jobs report data also showed that the economy is adding jobs at a moderate pace.

The S&P 500 index gained 4.6 percent to 1,466.47 for the week, reaching its highest level since December 2007. The Dow Jones Industrial Average (DJIA) rallied 3.8 percent for the week to close at 13,435.2, while the Nasdaq Composite index climbed 4.8 percent to 3,101.66.

On the domestic front, the PSE index (PSEi) closed at 5,971.45 (a new all-time high) for a weekly gain of 2.7 percent. For a yearly start, last week's gain was the PSEi's biggest in three years.

Before this, the PSEi had a gain of 5.98% during the first week of 2009 to kick off this global bull market which we in Philequity correctly called. (see *Opportunity of a Generation*, Nov. 3, 2008 and *666 on 3-6-9*, April 13, 2009)

Bang!

Around the world, equities markets are starting the New Year with a bang! The broad global rally is being led by emerging markets like the Philippines, Indonesia, Malaysia and Mexico which markets are all trading at record highs. Thailand's market is at a 17-year high and is nearing its 1994 peak.

ASIAN & OTHER EMERGING MARKETS			%Change	
Country	Index	Value	Weekly	Remarks
Hong Kong	Hang Seng	23,331.09	2.93%	1-yr high
Philippines	PSEi	5,971.45	2.73%	all-time high
Brazil	Bovespa	62,523.06	2.58%	< 1-yr high
Indonesia	JCI	4,410.02	2.16%	all-time high
Mexico	Bolsa	44,562.33	1.92%	all-time high
China	CSI 300	2,524.41	1.79%	< 1-yr high
Thailand	SET	1,416.66	1.78%	17-yr high
India	Sensex 30	19,784.08	1.74%	2-yr high
Taiwan	TWSE	7,805.99	1.38%	< 1-yr high
Singapore	STI	3,225.22	1.05%	1-yr high
South Korea	Kospi	2,011.94	0.75%	< 1-yr high
Malaysia	KLCI	1,692.58	0.67%	all-time high
Russia	MICEX	1,477.87	0.21%	< 1-yr high

Source: Bloomberg

In the developed markets, the US Nasdaq is at the forefront with the index trading at its highest level since November 2000 which is a 12-year high. Meanwhile, the S&P 500, the DJIA and the German DAX are all trading at five-year highs.

MAJOR MARKETS			%Change	
Country	Index	Value	Weekly	Remarks
US	Nasdaq	3,101.66	4.77%	12-yr high
US	S&P 500	1,466.47	4.57%	5-yr high
Italy	MIB	16,959.78	4.22%	< 1-yr high
US	DJIA	13,435.21	3.84%	5-yr high
SPAIN	IBEX	8,435.80	3.75%	< 1-yr high
France	CAC 40	3,730.02	3.03%	1-yr high
Japan	Nikkei 225	10,688.11	2.82%	1-yr high
UK	FTSE 100	6,089.84	2.78%	2-yr high
Germany	DAX	7,776.37	2.15%	5-yr high
Canada	TSX Composite	12,540.81	1.82%	< 1-yr high

Source: Bloomberg

The Greatest Gift of All

In a period of slow global economic growth and looming deflation brought about by the European debt crisis and the US subprime crisis, we now consider quantitative easing (QE) and low interest rates as the greatest gift to us by Bernanke and other central bankers.

Using every weapon at their disposal, from rate cuts to outright bond purchases, global central banks led by Fed and the ECB initiated the “Great Monetary Easing” (see *The Great Monetary Easing*, October 22, 2012 and *Christmas Presents*, Dec. 24, 2012).

Following the ECB’s announcement of Outright Monetary Transactions (OMT) and the Fed’s 3rd round of quantitative easing (QE3) in September 2012, the Bank of Japan stepped up its own Asset Purchase Program (APP) in October 2012.

Other central banks, from countries such as China, Brazil, India, Australia and even the Philippines, did their share using conventional tools such as rate cuts. In mid-2012, the People’s Bank of China (PBoC) surprised many by cutting benchmark rates twice in a span of one month. The PBoC also cut reserve requirements last year and promised to do more this year.

Thanks to the central banks, we are now witnessing a global bull market in stocks.

New high means higher

In a past article, we discussed how Newton’s Law of Inertia can be applied to stock markets (see *Newton’s Law of Inertia Applied to the Stock Market*, Oct. 30, 2006). The law teaches us that a market trending upwards (or downwards) will continue moving up (or down) until a drastic change in fundamentals and sentiment create an equal and opposing reaction.

As long as central banks continue to ease and maintain interest rates low, the global bull market will continue. The markets will continue to trek higher unless fundamentals drastically change or central banks reverse course. Newton’s law of inertia suggests that “a new high” means higher for the markets.

New all-time high means higher for the PSEi

Note that the PSEi is currently at a new high. This means that there are no resistance points at the current level. New high for the PSEi means that the PSEi will go higher. Based on technical analysis,

the PSEi's next target is 6,129.47 (see chart below).

Based on fundamentals, we expect the PSEi to hit 6,700 by the end of the year. Our key assumptions and computations will be discussed in subsequent articles and in our presentation to investors of Philequity Fund and clients of Wealth Securities, Inc.



Source: Stockcharts.com

Climbing a wall of worry

After the US fiscal cliff was averted last week, investors will now focus on upcoming battles in the US Congress, including the likelihood of more dramatic struggles over spending cuts and the raising of the federal debt ceiling. Europe continues to be a problem with EU manufacturing sinking deeper into recession in December. There is also a new concern that the Fed will end its \$85 billion monthly bond buying program before 2013 ends.

Meanwhile, the US economy is still experiencing very slow growth. Europe is still trying to fix their house, especially with heavily indebted countries like the PIIGS (Portugal, Ireland, Italy, Greece and Spain). China is still trying to avert a hard-landing. With this background of slow growth, fiscal crises and other macroeconomic fears, central banks will continue to be on their toes (keeping interest rates low and innovating with unconventional policies such as QE) until the global economy regains traction.

We have, time and again, reminded our readers of the wise saying “*don't fight the Fed*” because they have a lot of tools in their arsenal (see *Whatever It Takes*, Aug. 27, 2012 and *Central Banks Winning*, Sept. 17, 2012). In fact, this has been our main investment thesis for this global bull market that we are enjoying.

With the central banks at your back, we believe that the global bull market will continue and that stocks will continue to climb a wall of worry.

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