Philequity Corner by Valentino Sy
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2013 Scorecard

In an article we wrote exactly one year ago (see *Global Bull Market*, January 7, 2013), we said that:

"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...

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

The year of the bull

Looking back, global equities undeniably went on a bull rampage in 2013. Japan's Nikkei led the way with a 56.7 percent return, its biggest gain in 41 years. The US S&P 500 Index and the Dow Jones Industrial Average had their biggest yearly gains since 1996, up 29.6% and 26.5%, respectively.

The S&P 500 Index and the DJIA also registered new record highs. In Europe, the German DAX index surged 25.5 percent en route to a new record high.

A number of emerging markets including the Philippines, Indonesia, Malaysia, Thailand, Mexico, Turkey and South Africa also recorded new all-time equity highs in 2013. Most have corrected since May 2013 after Bernanke first hinted "QE tapering" (with the exception of Malaysia and South Africa).

Overall, more than 80 percent of indices that are listed in Bloomberg's World Equity Indices (WEI) list showed positive returns for 2013.

2013 Market Performance

Country	Index	2013 %Chg YoY	Region	Country	Index	2013 %Chg YoY	Region
Japan	Nikkei	56.7	DM	Malaysia	KLCI	10.5	EM-ASEAN
US	S&P 500	29.6	DM	India	SENSEX	9.0	EM-Asia
US	DJIA	26.5	DM	Hong Kong	HANG SENG	2.9	EM-Asia
Germany	DAX 30	25.5	DM	Philippines	PSEI	1.3	EM-ASEAN
Spain	IBEX	21.4	DM	South Korea	KOSPI	0.7	DM
Switzerland	SMI	20.2	DM	Singapore	STI	0.0	DM
France	CAC 40	18.0	DM	Indonesia	JCI	(1.0)	EM-ASEAN
South Africa	JSE	17.9	EM-Africa	Mexico	IPC	(2.2)	EM-LatAm
Italy	MIB	16.6	DM	Russia	RTSI	(5.5)	EM-Europe
Australia	ASX 200	15.1	DM	China	SSE	(6.8)	EM-Asia
UK	FTSE 100	14.4	DM	Thailand	STI	(6.7)	ASEAN
Taiwan	TAIEX	11.9	EM-Asia	Brazil	IBOVESPA	(15.5)	EM-LatAm

Source: Wealth Securities Research

Shift from EM to DM

A major development that happened in 2013 is the shift of capital flows from emerging markets (EM) to developed markets (DM) after Bernanke's "tapering" speech on May 22, 2013. This triggered large-scale unwinding, deleveraging and repatriation of funds. Hence, erstwhile emerging market leaders such as Turkey, Mexico and the ASEAN-3 (Indonesia, Philippines, Thailand) which led from 2012 up to the 2nd quarter of 2013, ended the year flat or slightly down.

At the same time, developed markets such as the US, Japan and even Europe started to show signs of economic improvement which translated to huge price gains in their stock markets last year.

US dollar strength & Yen weakness

Another key theme that influenced the markets last year was the US dollar strength and yen weakness. In fact, we wrote several articles about this which was highlighted by our call of a peso top (see *Peso Tops Out*, May 27, 2013), eight years after we called the bottom of the peso (see *Peso, The Strongest Currency in Asia*, October 24, 2005).

Commodity currencies such as the Indonesian rupiah, South African rand, Australian dollar, Brazilian real and the Canadian dollar depreciated sharply as commodity prices softened in 2013.

Currency	2013 %Chg YoY	Currency	2013 %Chg YoY
Indonesian Rupiah	(19.5)	Thai Baht	(6.5)
South African Rand	(19.2)	Singapore Dollar	(3.3)
Japanese Yen	(17.6)	Taiwanese Dollar	(2.6)
Australian Dollar	(14.2)	Mexican Peso	(1.4)
Brazilian Real	(13.2)	South Korean Won	1.4
Indian Rupee	(11.0)	British Pound	1.9
Philippine Peso	(7.6)	Swiss Franc	2.5
Malaysian Ringgit	(6.7)	Chinese Yuan	2.9
Canadian Dollar	(6.6)	Euro	4.2

Source: Wealth Securities Inc.

Commodities tumbled

Precious metals and other commodities tumbled in 2013. In fact, 20 out of 24 commodities tracked by the S&P GSCI index declined last year. Silver plunged 35.9 percent and gold plummeted nearly 30 percent to mark their biggest annual declines since 1981.

EM weaknesses highlighted

The exodus of funds that was triggered by the talks of QE tapering highlighted the weaknesses of economies with huge current account deficits and high inflation, such as India and Indonesia. This exacerbated the declines in their respective currencies which inevitably affected regional currencies such as the peso.

PSEi: Post-taper talk & Post-Yolanda

Last week, we discussed the reasons why the PSEi and the peso swung from being the best to worst in a span of one year (see *From Best to Worst,* December 30, 2013). But aside from the Fed's tapering of QE which affected everyone, the Philippines was affected by a barrage of problems towards the latter part of the year (torrent of share issuances, pork barrel scam, Zamboanga siege, earthquake, and the straw that broke the camel's back, Yolanda).

Asia ex-Japan		Post-Taper Talk			Post-Yolanda
Country	Index	%Chg	Country	Index	%Chg
India	SENSEX	5.5	Taiwan	TAIEX	4.6
Malaysia	KLCI	4.7	Malaysia	KLCI	3.5
Taiwan	TAIEX	2.5	Hong Kong	HANG SENG	2.5
South Korea	KOSPI	0.9	India	SENSEX	2.4
Hong Kong	HANG SENG	(2.1)	South Korea	KOSPI	1.3
China	SSE	(8.1)	China	SSE	0.5
Singapore	STI	(8.3)	Singapore	STI	(0.3)
Indonesia	JCI	(17.9)	Indonesia	JCI	(4.5)
Philippines	PSEI	(20.3)	Philippines	PSEI	(7.3)
Thailand	STI	(20.4)	Thailand	STI	(7.6)

Source: Wealth Securities Research

Like we said in our article last week, market sentiment can change easily. Last year, we saw how sentiment can turn against us in such a short period of time. Similarly, sentiment changed in Indonesia when its huge current account deficit was exposed and in Thailand because of political turmoil and prospect of a coup d'etat. Equity markets from these ASEAN countries which run up "too fast too soon" in prior years, pulled back last year with double digit losses.

But from the bear market bottom of 2009, Indonesia, Thailand and the Philippines still performed very well, up 232%, 211% and 206%, respectively. Meanwhile, the S&P 500 index is up 170 percent from the March 6, 2009 low. Hence, from a longer term perspective, the US and other equity markets are just catching up with us.

Peso: Post-taper talk & Post-Yolanda

While the PSEi dropped sharply post-taper talk and post-Yolanda, the peso was more stable relative to the region. Going forward, the peso remains vulnerable to further weakness given the continued strength of the US dollar, and the weakness of the yen and other ASEAN currencies.

	Post-Taper Talk		Post-Yolanda
Asian Currencies	%Chg YoY	Asian Currencies	%Chg YoY
South Korean Won	10.8	South Korean Won	1.4
Chinese Yuan	4.4	Indian Rupee	1.1
Singapore Dollar	0.9	Chinese Yuan	0.6
Taiwanese Dollar	(1.0)	Taiwanese Dollar	(1.2)
Philippine Peso	(2.8)	Singapore Dollar	(1.3)
Thai Baht	(4.0)	Philippine Peso	(2.7)
Malaysian Ringgit	(4.8)	Malaysian Ringgit	(2.9)
Indian Rupee	(10.4)	Thai Baht	(3.8)
Indonesian Rupiah	(23.6)	Japanese Yen	(5.9)
Japanese Yen	(24.1)	Indonesian Rupiah	(6.2)

Source: Wealth Securities Research

Big Picture 2014

2013 was a classic breakout year for the US and other developed markets such as Japan and Germany. With the exception of the Nasdaq, the major US indices have all broken to new all time highs and many by over double digits. The Nikkei made the biggest yearly gain in four decades. Meanwhile, stock markets in troubled EU countries like Spain and Italy showed much improvement.

Our view is that if the breakout holds for these three major markets (US, Japan and Europe) and the US continues its strong economic recovery this year then we will see a rebound in emerging markets in 2014. In addition, China should show signs of resolving its structural problems (e.g. liquidity squeezes, ballooning local government debts, etc.). If these happen, expect the peso and Philippine stocks to recover together with other emerging market currencies and equities.

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