

Philequity Corner (April 6, 2015)
By Valentino Sy

Baby Bear's Porridge – Just Right

Yesterday was the celebration of Easter Sunday. There were many children's parties, with the Easter bunny there to entertain everyone, as well as lead the Easter Egg hunt. There was also storybook reading for the tots in attendance. This reminded us of the many fairy tales and allegories we have listened to ever since we were children.

In fact, we have used allegories to explain our investment strategies, such as the story of the Hare and the Tortoise (see *The Hare and the Tortoise*, 5 April 2010). This time, we will use Goldilocks and the Three Bears for our investment lesson.

Tasting Porridge

In this tale, Goldilocks was walking in a forest when she chanced upon a house. She knocked on the door but no one answered. However, she went in anyway and saw three bowls of porridge on a table. After walking through the forest, Goldilocks was naturally hungry. Thus, she proceeded to taste the porridge, starting from the first bowl. After tasting it, she exclaimed, "This porridge is too hot!" She then tried the porridge in the second bowl, and said, "This porridge is too cold!" Not satisfied with the first 2 bowls, she took a sip of the porridge in the last bowl. She then happily declared that "This porridge is just right!" Since she was very hungry, she then gobbled it all up. Unbeknownst to her, these 3 bowls of porridge belonged to Papa Bear, Mama Bear and Baby Bear, respectively.

Hot and Cold

This is just a portion of the allegory Goldilocks and the Three Bears, but it is this disparity between the 3 bowls of porridge that we want to focus on because it explains what is happening in the global economy right now. Like the three bowls of porridge, there are currently three stages of growth in the world economy.

Papa Bear's porridge – Too hot

The hottest porridge bowl belonged to Papa Bear and it reminded us of the US economy. During the US Financial Crisis, then Federal Reserve Chairman Ben Bernanke launched a quantitative easing program (QE) to revive the US economy which had plunged into a recession. 6 years hence, the US economy is now growing at 3% and unemployment is at its lowest since 2008. However, with unemployment at 5.5%, close to the Fed's objective, and nonfarm payrolls growing by more than 200,000 over the past few months, the Fed has now opened up the possibility of raising interest rates. This spooked investors because they are concerned that the US and global economy is too fragile to withstand policy tightening.

Mama Bear's porridge – Too cold

On the other hand, many major economies are still stuck in the doldrums and have just started their own version of QE. Europe, Japan, China and many of the commodity-producing countries are experiencing below trend growth rates. Just like Mama Bear's porridge, their economies are too cold. As such, central banks in these countries have resorted to cutting interest rates in order to kick start

growth in their respective countries. Thus far, more than 20 countries have cut interest rates in the past year.

Too Hot, Too Cold

Note that US monetary authorities are concerned over their economy getting ahead of itself, hence the Fed is telegraphing its intention to eventually raise interest rates. On the other hand, countries with weak growth, like Europe and Japan, want to stimulate their economy by lowering interest rates and/or implementing their own version of QE. This paradigm of uneven growth, with different countries being either too hot or too cold, has led to heightened volatility in stock markets around the world. Unfortunately, unlike Goldilocks, finding the “just right” porridge has proven to be more difficult.

Baby Bear’s porridge – Just right

However, just like Goldilocks, if investors find porridge like that of Baby Bear, they will gobble it all up. Fortunately, the Philippines is “just right.” As we said in last week’s article (see *Green in a Sea of Red*, 30 March 2015), the Philippines has clear, steady and stable growth. Unlike the other countries, our central bank does not need to raise or lower interest rates. In fact, the BSP has just been keeping interest rates on hold. Just like Baby Bear’s porridge, the Philippines is the “just right” porridge.

All-time high for the right porridge

This sweet spot that the Philippines is in has naturally attracted many investors. Just like the porridge, Philippine stocks were eaten up, both by foreign and local funds. Net foreign buying is already in excess of PhP 40 billion, and yet it shows no signs of abating. In fact, on days that the Dow Jones index has been dropping triple digits, the PSEi has been going the opposite direction, even making historic highs. On the last trading day before the Holy Week break, the PSEi also closed at an all-time high of 7,993.09, for a YTD return of 10%!

Thankful for our blessings

However, the strength of our economy and stock market would not be possible without our countrymen. We have our OFWs and BPO workers to thank for boosting our economic growth. We are also grateful to have an enlightened Department of Finance and a prudent BSP, which are both making sure our economy is growing at a steady and stable place. Another tremendous blessing is the more than 50% drop in oil price which has not only given our government \$6 billion in savings, but increased the Filipino’s spending power as well. Clearly, the Philippine economy is like Baby Bear’s porridge - just right.

Happy Easter!

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity’s managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 689-8080 or email ask@philequity.net.