

Philequity Corner (July 27, 2015)
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State of the Market Address (SOMA)

Today, President Benigno Aquino, Jr. will be delivering his last State of the Nation Address, or SONA. In his speech, he is expected to talk about his administration's achievements over the past 5 years. He will also describe how the "Daang Matuwid" has helped our nation progress through clean and honest governance.

On August 1, Philequity will be giving its own SONA, but with a twist. It will be a State of the Market Address or SOMA. Through this SOMA, we will explain what happened to our stock market and where it will be headed from here. In this article, we will be giving you a teaser of our market outlook which will be presented on Saturday, August 1.

Philippine economic indicators

After reaching a high of 8,137 in April, the index fell sharply after disappointing 1Q15 GDP figures were released. Strong economic growth underpins the relatively high valuations of the PSEi, so below forecast numbers can lead to a correction. We will be discussing Philippine economic indicators such as interest rates, inflation, GDP growth, OFW remittances, and how they affect the stock market.

Global macroeconomics

The Philippine economy will also be affected by what is happening in the global economy. Developments there will also affect our country and stock market. For instance, the sharp drop in crude oil prices has been a boon to consumers as it increased their spending power. In a previous article (see *Falling Oil Prices: A Boon to the Philippine Economy*, 26 January 2015), we talked about the positive effects it will have on the economy. Thus, we cannot lose sight of other asset classes, such as global bond yields, crude oil and other commodities. We will also discuss the impact of major macro events in China and Greece as these have also led to sharp corrections.

The Almighty Dollar

Although Philequity invests mainly in equities, we keep a close watch on currencies. Among the currencies, the most important at this point is the US dollar strength. This will have a significant impact on stock prices, currencies and businesses around the world. We will be discussing how the dollar has been faring against the Euro, Japanese yen, emerging market currencies and how it has affected stocks.

The Philippine Peso

On the back of dollar strength, the peso closed at 45.52 last Friday, a 4-year low against the US dollar. We will be sharing our views on where the Philippine peso is headed, as well as its performance against the Euro, yen and our regional neighbors.

Global stock markets

In addition to global macroeconomics, it is important to note the performance of stock markets around the world, especially the US. This will give us a heads up on how Philippine stocks will react, as well as confirm whether we are still in a global bull market or not.

Philippine stock market fundamentals and yearend target

In order to come up with price targets for the PSEI and individual stocks, we continue to study the fundamentals of different companies. We will be giving a broad view on this as we examine the PSEI's valuation versus other stock markets and quarterly earnings reports. We will also be giving our yearend target, as well as risks & catalysts that can affect this.

Technical analysis

Aside from fundamentals, we also use technical analysis in determining the direction of the market. During the briefing, we will also be providing our technical analysis viewpoint on the Philippine stock market, other equity indices and currencies.

Fund flows

While fundamentals tell you how cheap or expensive a stock is, it also pays to follow the money. We will describe how the flow of foreign funds have risen and ebbed during 2015, leading to sharp gyrations in the market. On the other hand, domestic fund flows remain strong, with local institutions continuing to buy on dips.

From placements to buybacks

In previous articles (see *An avalanche of overnight secondary placements*, 23 July 2012 and *A Torrent of Share Issuances and Placements*, 11 November 2013), we described how tens of billions of pesos worth of placements sapped liquidity from the market and caused it to correct. On Saturday, we will show you that the reverse is now happening – companies, owners and majority shareholders are now buying. We will identify which stocks are being bought and who the buyers are.

Politics and Stocks

With less than a year to go before national elections, broadsheets have been rife with speculation as to who the President will endorse, who is running for what position and under what party, and who the frontrunner in the surveys is. The choice of leader and stability of government can make or break a bull market, so we will be showing you what happens in other countries based on the results of their elections.

Using the Philequity book as a guide

During the event, we will also be holding the book launch of "Opportunity of a Lifetime". Books will be sold at cost on that day, with all proceeds going to charity. The book will give you a glimpse into how Philequity Corner was born, how the articles are crafted and how the investment strategies we use are formulated.

To help readers understand the book more, a chapter on how to read it has been included. It is our hope that clients and readers will be able to use this as a guide in making investment decisions. If you buy books on that day, you will have the opportunity to have it signed by the author himself, Wilson Sy. We are inviting all Philequity investors to Philequity's shareholders meeting, investors briefing and book launch on August 1, 3PM at the Meralco Theater.

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.