



Philequity Corner (April 18, 2016)
By Wilson Sy

Groundswell

Groundswell is defined by the Merriam-Webster dictionary as “a fast increase in the amount of public support for something, such as a political cause or candidate.” Moreover, freedictionary.com defines groundswell as “a surge of feeling or opinion, especially among the general public.” This is exactly what we are witnessing with the meteoric rise of presidential candidate and Davao City Mayor Rodrigo Duterte. He started out as a reluctant substitute candidate who had to overcome a disqualification case. At the onset, most people did not take his candidacy seriously because he is a *probinsyano*. Further, he has no national experience or exposure and has no established machinery or well-known backers. At the start of the race, he consistently placed #3 or #4 in surveys. Recently, however, a tidal wave of support has propelled Duterte to the frontrunner position in the latest surveys. Now, everyone is scratching their heads wondering how this Duterte groundswell came to be.

Mock surveys show early signals

Even before the latest survey results came out, private companies have been doing mock polls to understand how their employees will vote. Many of the owners of various corporations were surprised to see Duterte come out unexpectedly strong in their company polls. We initially saw a build-up of support for Duterte among the D-E classes. What is remarkable, however, is that he has now become the leading candidate even for the A-B-C classes.

Understanding the Duterte groundswell

Early signs of surging support for Duterte have caused many businesses and investors to ponder what is causing this groundswell and what its effects would be on the capital markets, business environment and economy. At the onset, most Filipinos probably viewed Duterte’s candidacy as a joke. He has an interesting personality but many thought he would not stand a chance. **Now, the specter of a Duterte presidency is staring everyone in the face. Business leaders, economists, asset managers and investors now have to factor a potential Duterte presidency into the equation.**

Volunteers spur groundswell

A distinguishing aspect of Duterte’s campaign is his initial reluctance to run for the country’s highest office. There was a point when he wanted to back out of the race but his supporters convinced him to run despite his dilly-dallying. These supporters and volunteers are the same people who help organize his sorties, print campaign materials and spread the word of mouth about him. Though it was Duterte’s cursing and tirades that captured mainstream media, it was the strength of his volunteers that fuelled his rise despite the lack of an established political machinery.

Rabid!

What we have observed is an outpouring of very strong sentiment and extreme opinions particularly for Duterte. Throughout his rise in popularity, we have witnessed how some of his supporters can act like a mob and send strong hate messages or comments to people who do not support their candidate. We understand their passion and we believe that it is a sign of a vibrant democracy. We just hope that it

does not turn into the kind of blind fanaticism which propelled the rise of corrupt despots and authoritarians in history.

Like Trump?

We are currently seeing a rise in popularity of strongman figures not only in our country but also around the world. This may be explained by a growing preference for candidates who promise strong leadership, swift action and an ability to deliver change quickly. This is the same phenomenon that fuelled the rise of US presidential candidate Donald Trump. Now, Duterte is being compared to Trump, who has made outlandish promises and pronouncements that captured the voting public's attention.

Kill criminals and drug pushers

The centerpiece of Duterte's platform is to address crime and corruption. He has repeatedly said that he is willing to wield a gun in order to get his goals done. He promises to kill criminals and drug pushers. He also vows to prosecute corrupt government officials. He is known to have links with rebels, death squads and vigilante groups. There are talks of his involvement in extrajudicial killings, which he is sometimes even proud of. He has vowed to deliver swift justice against perpetrators even if this may go against due process. The main problem with his approach is this: Who will check or stop him when he errs?

On the other hand, Duterte's pronouncements on using an iron fist against crime and corruption shows the determination to instil discipline in the country. His followers assert that the country needs a leader like him to ensure that basic laws and rules will be followed so that our country can truly prosper.

Venting frustrations

Duterte admittedly uses violence to forward his goals. He routinely curses in public, openly insults people he does not like and is a self-confessed womanizer. He hails from the province and has no national experience. He is an outsider to mainstream politics, which makes his rise all the more astonishing. But beneath the tough exterior is a simple man who has a unique personality which his voter base finds charming and captivating. Using expletives, he often curses government inefficiencies and situations that ordinary Filipinos would also be angry about. He talks in an easy-going manner and likes to joke around. He dresses casually, has always lived in a simple house and by all indications is not corrupt. He is really not a traditional Filipino politician. Thus, he comes off as someone authentic. He typifies the common Filipino's clamor for change when he vents his frustrations over traffic jams, government inefficiencies, crime and corruption.

'Atin to 'Pre'

'Atin to 'Pre' is one of the Duterte campaign's main slogans. Translated directly into English, it means "This is ours, my friend." This slogan is seen in campaign posters, stickers, social media posts or even in the colorful baller bands that most of his supporters wear. His supporters feel that he is their candidate and they are willing to convince their friends, relatives and colleagues to also vote for him.

Bottoms-up vs. top-down

Duterte's campaign stands in stark contrast to other candidacies which were announced and planned well-ahead of the elections. As opposed to other campaigns where planning emanates from the top (top-down), Duterte's campaign seems to emanate from the grassroots and from his volunteers

(bottoms-up). We thus believe that we are witnessing a unique phenomenon where a *probinsyano*, one who is an outsider to mainstream politics, stands a fighting chance against candidates with strong party affiliations and extensive political machineries.

Promise of determined action and radical change

Duterte's appeal shines against a backdrop of a citizenry clamoring for change. His supporters are gravitating towards a candidate who embodies strong and decisive leadership – one who promises to undertake drastic actions, deliver immediate results and achieve seemingly impossible goals. With Davao City as his model and people from Davao providing testimonials, Duterte promises to make the government work for the people. **What is common among Duterte's ardent volunteers and fanatical supporters from all walks of life is that they all aspire for swift and decisive change.**

Groundswell vs. political machinery

Though Duterte has recently seized the lead, nothing is certain until a clear winner is declared. So far, this is turning out to be one of the most interesting elections in recent history, one where we saw three lead changes and three frontrunners at different points in time. What is hard to measure is the ebb and flow of the changes in mass sentiment. It remains to be seen whether the Duterte groundswell will result in a win. Will it be enough to upstage Mar Roxas and LP's vaunted machinery? Will it offset Vice President Jejomar Binay's extensive influence among mayors and local government leaders? Can it overcome NPC's war chest and infrastructure which are working for Senator Grace Poe? We will find out in three weeks.

A unique phenomenon

The last groundswell that we witnessed resulted in the Noyonoy Aquino presidency, which was fuelled by a sympathy vote for the passing of his mother, ex-President Cory Aquino. This time, support galvanized from the bottom, strengthened by volunteers and loyal supporters. We can look at the Duterte candidacy as an unexpected event which was spurred by the people themselves. **Regardless of the election outcome, we believe that the Duterte groundswell is something that has to be analyzed and understood. It is a phenomenon for sociologists, psychologists and political analysts to study.** And this is why investing in the stock market is a tough job. While quantitative disciplines such as economics, math and finance are needed to make investment decisions, a strong liberal arts background – one that includes sociology, psychology, history and political science – is necessary in order to put it all together.

What the groundswell means for the stock market

While this article is focused on understanding the Duterte groundswell, we would like to clearly state that this is not an endorsement for him or any other candidates. In fact, our directors and management have different sets of opinions and preferred candidates. **The objective of this article is to discuss this unique groundswell phenomenon so that our readers can start analyzing how it will ultimately affect investor sentiment, the stock market, the business climate and the economy.** We routinely analyze political events in other countries and assess their impact to their respective economies and investor sentiment. We thus believe that it is our responsibility as a fund manager to study this unique phenomenon which can have a major impact not only on our stock market but also on our country as a whole.

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