



Philequity Corner (May 30, 2016)
By Wilson Sy

Groundswell in the stock market

In the lead-up to the elections, we wrote an article about the Duterte groundswell phenomenon. We tried to understand how Rodrigo Duterte captured the imagination and adulation of Filipinos from all walks of life. We talked to various people from different classes and backgrounds – from taxi drivers and messengers to office employees and businessmen – in order to appreciate the reasons behind Duterte’s sudden popularity. Moreover, we were amazed at how his grassroots campaign was fuelled by the citizenry itself. The Duterte groundswell took everyone by surprise as the combined efforts of dedicated volunteers and ardent supporters overcame the established machinery and political connections of his opponents. We said that this phenomenon is something that sociologists and political analysts should study and comprehend (see *Groundswell*, April 18, 2016). After it catapulted the Punisher to be our next president, we have seen that the groundswell has started spreading to our stock market.

Groundswell reaches the stock market

As the elections drew closer, several analysts and houses turned extremely bearish with regards to Duterte’s impending win. Many painted doomsday scenarios, predicted a sharp stock market correction and expected the worst out of a Duterte presidency. However, the index actually went up 6% three weeks after the elections despite encountering brief corrections. These short-term downmoves were triggered by contemplated contentious Cabinet appointments and the recent overnight placement of JG Summit Holdings (JGS). Yet, many analysts still insist that the recent market move is just a technical rally especially since the PSE Index is still far away from its all-time closing high of 8,127. They also cite that our index has reached technical resistance at the 7,400 to 7,500 level. **However, it may have come unnoticed that many index stocks have recently reached all-time highs. The failure of the PSE Index to reach new highs has masked the underlying strength of Philippine stocks.**

All-time highs

As we show in the table below, 7 out of the 30 index constituents, accounting for 41% of the PSE Index, reached new all-time highs after the elections.

Index stocks that recently reached new all-time highs

Company Name	Ticker	All-Time High	Date	Index Weight (%)
Ayala Corp	AC	850.50	5/25/2016	6.15
Aboitiz Equity Ventures	AEV	75.45	5/25/2016	5.76
SM Prime Holdings	SMPH	25.60	5/18/2016	6.51
JG Summit Holdings	JGS	95.25	5/17/2016	6.88
SM Investments Corp	SM	1,012.00	5/17/2016	10.60
Jollibee Foods Corp	JFC	242.60	5/16/2016	3.22
Aboitiz Power Corp	AP	49.00	5/13/2016	1.90

Sources: Bloomberg, Wealth Research

Apart from these, there are other index stocks that recently reached multi-year highs such as Metro Pacific Investments Corp (MPI), Meralco (MER) and GT Capital Holdings (GTCAP). Moreover, if not for

the substantial drop of PLDT (TEL), the PSE Index would now be trading at much higher levels. **Lastly, the fact that many index stocks are trading at all-time or multi-year highs is a manifestation of a vibrant bull market.**

JGS placement shows strong demand for Philippine stocks

Another evidence of our stock market's strength is the overnight placement of JGS last week. JGS Chairman Emeritus John Gokongwei sold the equivalent of \$250m or ~P11.7b, priced at P82.10/sh. The fact that a local conglomerate can conduct a placement of such amount over a few hours shows that there is strong demand not only for JGS shares but also for Philippine stocks in general.

Peso – The Only Gainer

Aside from the recent move of the PSE Index, the strength of the Philippine peso is an indication of confidence resulting from the electoral victory of the Punisher. Though most currencies weakened against the US dollar, the peso has managed to stay firm and has posted a gain vs. the dollar. **Thus, the peso has been a clear outperformer vs. major currencies and other Asian currencies in the past month or so** (see table below).

Peso vs. major currencies and Asian currencies

Currency	Ticker	3 wk return	1 mo return
US Dollar	DXY	1.7%	2.6%
Philippine Peso	PHP	0.8%	0.5%
Indian Rupee	INR	-0.7%	-1.1%
Chinese Yuan	CNY	-1.1%	-1.4%
Thai Baht	THB	-1.7%	-2.3%
Singaporean Dollar	SGD	-1.3%	-2.6%
Euro	EUR	-2.5%	-2.9%
Indonesian Rupiah	IDR	-1.8%	-3.1%
Japanese Yen	JPY	-3.0%	-3.6%
Malaysian Ringgit	MYR	-1.8%	-4.4%

Sources: Bloomberg, Wealth Research

Understanding the groundswell in the stock market

The Duterte groundswell started to spread to the stock market on the very first day after the elections. Before the elections, many adopted a wait-and-see stance because of negative expectations from a Duterte presidency. Thus, investors were pleasantly surprised when the Duterte team made its first pronouncements after winning the elections. The incoming administration stated that it would continue current successful macroeconomic policies, accelerate infrastructure spending and address bottlenecks in project implementation. Brewing confidence in the stock market was spurred by the presentation of the Duterte government's 8-point economic agenda. The appointments of Sonny Dominguez as DOF Secretary, Art Tugade as DOTC Secretary, Ernesto Pernia as NEDA Chief, Silvestre Bello III as DOLE Secretary, as well as other credible people to key Cabinet posts, further buoyed stock market sentiment.

Inspiring confidence

A very important member of the Duterte team is incoming DOF Secretary Sonny Dominguez. He has a solid reputation among businessmen and people who know him. He knows how business works since he

is a businessman and was president of various big companies. He also knows how the government works, having served as Agriculture Secretary during the Cory Aquino administration.

Sonny has been closely coordinating with outgoing Finance Secretary Cesar Purisima to ensure the continuity of ongoing initiatives. On top of this, he has been busy doing the rounds, holding meetings with different sectors and various captains of industry. In those meetings, Sonny has been consultative and has always been willing to listen. Moreover, he has proactively sought feedback and suggestions in order to formulate policies that will work best for our country and economy. Thus, many view him as the right conduit to explain the Duterte enigma to businessmen. **Sonny's presence in the Duterte team has inspired confidence from the business and investment community.**

Capitalizing on the groundswell

Our country continues to benefit from strong fundamentals, as seen in our economy's 6.9% GDP growth in 1Q16. Robust domestic consumption continues to drive our economic growth. Meanwhile, our stellar fiscal position ensures that the government has the leeway and the resources to fund and support our country's ongoing structural transformation. Thus, the incoming administration is in a prime position to capitalize on the Duterte groundswell and his strong mandate. The Duterte team should therefore continue to build on our country's strengths. **Key initiatives include improving our country's business competitiveness, opening various sectors to foreign investors and implementing a comprehensive tax reform package. We note that these will not only strengthen our economy but will also serve as positive catalysts for the ongoing Philippine secular bull market.**

Long-term trajectory is up

A correction is possible considering the recent post-election surge of Philippine stocks. This may be triggered by technical reasons (as the PSE Index is trading at resistance levels), additional placements by listed companies that may sap market liquidity and a probable Fed rate hike within the next few months. Notwithstanding, we believe that our stock market's long-term trajectory is up. If Duterte successfully capitalizes on the groundswell that propelled him to the presidency, then our stock market may reach new highs in the next year or so. As we have shown, many index stocks have already reached new all-time highs in the few weeks after the elections. **It is thus incumbent upon us Filipinos to unite and support incoming President Duterte and his team, as they seek to implement initiatives that will result in a better Philippines, a healthier economy and a stronger stock market.**

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