Philequity Corner (July 18, 2016)
By Wilson Sy

The Unloved Bull

Amidst the pessimistic forecasts and bearish outlook of most houses and analysts, global stocks recently delivered a spectacular performance. Last week, the Dow and S&P 500 reached new all-time highs. Moreover, other global indices made similarly strong upmoves.

8000 – Regained

Following the move of global indices, the PSE Index also moved higher and closed at 8,030 last week. Our stock market is up 15.5% year-to-date, making it one of the best performing indices globally. Moreover, the PSE Index is up 32.0% from its January lows and is 14.8% higher since the May elections.

Power of Foreign Money

The strong performance of the PSE Index this year has been buoyed by the inflow of foreign capital into our stock market (see table below). The inflows were exceptionally strong in the period following the election of Mr. Rodrigo Duterte as President of our country. Net foreign buying after the May elections has amounted to P40.9b. We note that this is a relatively large amount of foreign inflows over the span of 48 trading days.

Net foreign buying for the PH Stock Market

Period	Amount (in P)
Year-to-date	42,081,638,469
Since January low	46,035,656,819
Since elections	40,949,356,161
Since Brexit	16,219,062,877

Source: Phil Stock Exchange, Wealth Research

No Love from the Street

Despite the US making new all-time highs, we note that many houses have pessimistic and bearish views on the stock market. Recently, there were some well-known fund managers who went on record to explain their cautious or bearish views on the market. These include George Soros, Carl Icahn, Stan Druckenmiller, David Tepper and Jeff Gundlach. They warned that the bull market may be halted by the occurrence of various risks and concerns.

Due to the extreme volatility that markets experienced this year, 2016 has been a very difficult year for many active fund managers. According to a study by Bank of America Merrill Lynch, 82% of active fund managers underperformed their benchmark this year.

Stealth Bull

The current bull market is considered as one of the longest and strongest bull markets in history. The US and Philippine bull markets are now on their 7th year (*Happy 7th Birthday, Bull Market!,* March 14, 2016). Yet, this bull market has been unloved by many investors. Since it started, investors have grappled with heightened volatility and many other concerns and scares. These resulted in investor aversion, anxiety and skepticism. As such, many missed the boat and were not able to join the bull party. Others were probably whipsawed during periods of extreme volatility and bearishness. Even experts and renowned professionals were spooked-out somewhere along the way. Despite all these, the Dow and the S&P have kept moving higher and are now at new all-time highs.

Reasons for Pessimism

The emergence of various global risks and headwinds spooked many investors and caused extreme volatility in global markets. We enumerate these concerns below.

1. China's economic slowdown
2. Global economic slowdown
3. Deflation in major economies
4. Historic drop of oil
5. Weakness in commodity prices
6. Potential Fed rate hikes
7. A strong dollar
8. Brexit
9. Expensive valuations of certain indices
10. Geopolitical risks such as terrorist attacks, coups and threat of war

Indeed, markets were at times extremely weak and the outlook was very bleak. Oil and commodity prices dropped precipitously while many countries experienced a slowdown in growth. Japan, in particular, seemed to be running out of solutions in combatting deflation. Given this backdrop of desperation and bearishness, some economists and analysts have said that the global economy may be headed for a depression and that global stocks may experience a bear market.

Central Banks to the Rescue

Throughout this bull market, we have witnessed determined and coordinated actions from the Fed and other central banks when all the chips are down. Central bankers have shown that they are willing to come up with bold policy actions and statements in order to protect their respective economies from various risks that may hamper growth. Recently, the Fed has postponed rate hikes and will likely delay any potential hikes due to global macro concerns and the slow pick-up of inflation. For its part, the European Central Bank (ECB) has pledged to come up with appropriate policy actions to insulate Europe from the Brexit fallout.

Don't Fight the Fed

Time and again, we have said that investors should not bet against the Fed. In our book "Opportunity of a Lifetime", we devoted a chapter to discuss the wisdom of following the Fed and other central banks (See Chapter 4 – Don't Fight the Fed). As market participants, central banks can print money whenever needed and use policy tools that no one else has. As regulators, they can change the rules of the game so that they can achieve their objectives of stimulating growth and inflation.

Super Bernanke and Helicopter Money

In our book, we mentioned that one of our heroes is Ben Bernanke, former Fed Chair and the architect of the current US bull market. Bernanke recently met with Japanese leaders to discuss policies that can stimulate the Japanese economy. After rescuing the US from the grips of depression and possible financial armageddon, Bernanke is now out to help Japan. One of the options discussed was using helicopter money. There was talk that the Japanese government may issue perpetual bonds with no maturity date, which will then be bought by the Bank of Japan (BOJ). These are aimed at providing the Japanese government with additional ammunition to engage in more fiscal stimulus.

Fiscal Stimulus in the Philippines

The use of fiscal stimulus, along with accommodative monetary policy, seems to be an emerging trend for countries that want to promote economic growth. Wittingly or unwittingly, the Duterte administration is taking the same direction. Finance Secretary Sonny Dominguez and Budget Secretary Benjamin Diokno have made repeated pronouncements about increasing infrastructure spending as a % of GDP and targeting a wider budget deficit. These moves will aim to address our country's infrastructure backlog even as the economy benefits from the multiplier effect of higher government spending. Moreover, well-planned and targeted fiscal stimulus will allow the government to capitalize on our country's outstanding fiscal position in order to strengthen and improve economic growth. Considering these, the government is targeting a growth clip of 7-8% from 2018 to 2022.

Loving TINA

Some of you might be wondering who TINA is. Just to clarify, TINA is not a woman or a girl. TINA is an acronym for the words 'There Is No Alternative.' This is a phrase that has been repeatedly used during the current bull market. TINA encapsulates how stocks have become the best asset class in a bull market characterized by ultra-low interest rates and periodic bouts of extreme volatility. Bond yields are trading at historic lows, with some even reaching negative territory, because of the actions of central banks. Commodities and currencies have been extremely volatile and unpredictable. Thus, when it was clear that the Fed will postpone potential rate hikes, money sitting on the sidelines again piled-up into stocks. Philippine stocks have immensely benefited from this environment since our country continues to deliver strong GDP growth. Moreover, our economy is relatively insulated from the global slowdown and other global macro headwinds such as Brexit.

Loving the Philippine Bull

As with love and relationships, sustainable gains in one's investment portfolio are not built overnight but are instead earned over the long-term. The short-term picture may be a little harder to predict given the weak global macroeconomic landscape and geopolitical risks. Moreover, a correction or consolidation is possible at this point, considering the PSEi's recent steep upmove and the lofty valuations that Philippine stocks are presently trading at. Nonetheless, the long-term outlook remains positive as our country's fundamentals continue to be strong. The pronouncements of the government's 10-point economic agenda were well-received by the business community. Key initiatives include increasing infra spending, undertaking comprehensive tax reform (including the lowering of income taxes), opening-up the economy to foreign investors and accelerating GDP growth. We thus believe that it is possible for our country's fundamentals to further strengthen and improve. We will cheer on the Duterte administration as it attempts deliver 7-8% GDP growth from 2018 to 2022. This can drive the next leg of the secular bull market in Philippine stocks, which remains intact and upbeat to this date.

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.