



Philequity Corner (November 28, 2016)
By Wilson Sy

Winners and Losers

2016 has been a year of surprises, a year when it pays to expect the unexpected. After going through Brexit, investors the world over are now digesting the impact of Donald Trump's surprise victory in the recently concluded US presidential elections. While Trump is undoubtedly basking in his come from behind win, his triumph has created both winners and losers.

And the winners are...

Clearly, the winner in Trump's victory is the US stock market. The Dow Jones index, S&P 500, Nasdaq and Russell 2000 all made all-time highs. This is a historic event because the last time all major indices made all-time highs at the same time was in 1999. Trump's declaration to boost fiscal and infrastructure spending sent US financials, infrastructure and basic materials stocks higher by double digit percentages in 3 weeks. In Japan, the Nikkei rebounded 24% from the low and is now at 10-month highs. Another clear winner is the US dollar. The dollar index (DXY) strengthened significantly, rising to highs not seen since 2003.

Orange is the New Black

The younger generation will recognize the subtitle above to be the name of an Emmy award-winning TV series about a woman sentenced to prison. Produced by Lionsgate Television in 2013 and distributed by Netflix, the series is on its 4th season already. However, our subtitle also refers to Trump. Because of the significance of his victory and his facial color, some analysts have dubbed him an orange swan. With his win being a black swan event for many stock markets the world over, it seems that even in the investment world, orange is the new black.

And the losers are...

Although there have been clear winners in the Trump trade, Trump's victory was a black swan event for emerging market equities, currencies and bonds. EEM, an emerging markets ETF listed in the US, has lost 6% since Trump won. On the currency side, almost all currencies fell against the US dollar. One of the worst hit was the Mexican peso, which depreciated by 12% in just one day to reach an all-time low against the US dollar. During his campaign, Trump has threatened to build a wall on the Mexican border and implement tighter immigration policies. Expectations of higher inflation brought about by Trump's policies also sent bonds sharply lower, with the US 10-year bond yield rising from 1.7% to 2.3% in just a week. Emerging market bonds fell even more than their US counterparts.

Philippine stock market one of the biggest losers

Unfortunately, the Philippine stock market was one of the biggest losers. In the table below, we show the performance of the various Asian stock markets since the start of the year and since Trump won (Trump to date). As can be seen in the table below, since Trump's victory on November 8, the PSEi has lost 5.7%, the 2nd worst performance in Asia after Indonesia. In fact, with this recent drop, the Philippine stock market has given up all of its gains in 2016.

Asian Equity Indices – Year to date and Trump to date returns

| Asian countries | YTD return % | Trump to date return % |
|-----------------|--------------|------------------------|
| Japan | -3.4% | 7.0% |
| China | -7.8% | 3.6% |
| Singapore | -0.8% | 1.4% |
| Vietnam | 16.7% | -0.1% |
| Thailand | 16.5% | -0.6% |
| Taiwan | 9.8% | -0.6% |
| Hong Kong | 3.7% | -0.8% |
| South Korea | 0.7% | -1.4% |
| Malaysia | -3.9% | -2.2% |
| India | 0.8% | -4.6% |
| Philippines | -0.9% | -5.7% |
| Indonesia | 11.5% | -6.4% |

Philippine peso touches 50

In previous articles, we wrote about how negative news flow and anti-West rhetoric sunk the peso in September, bringing it to a 7-year low. However, this time around, the peso is suffering from dollar strength brought about by Trump's victory. This double whammy sent the peso to the 50/\$ level last week, an exchange rate not seen since the 2008 US Financial Crisis.

Trump victory exacerbates peso weakness

As can be seen in the table below, all Asian currencies depreciated against the US dollar ever since Trump won. The Trump victory exacerbated the fall of an already weakening peso. On a YTD basis, the peso is the 2nd worst performing Asian currency after the Chinese yuan because of its 4.1% drop in September. The move in September was particularly alarming because, as shown in the table, other Asian currencies were strengthening at that time. Moving in the same direction as our neighbors is nothing to worry about. However, what will be concerning is if the peso depreciates sharply to the point that it starts to destabilize the economy.

Performance of Asian currencies across different time frames

| Asian currencies | YTD return % | September return % | October return % | Trump to date return % |
|------------------|--------------|--------------------|------------------|------------------------|
|------------------|--------------|--------------------|------------------|------------------------|

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|--------------------|-------|-------|-------|-------|
| Japanese Yen | 5.8% | 2.0% | -3.4% | -7.7% |
| Taiwanese Dollar | 2.9% | 1.3% | -0.6% | -1.5% |
| Indonesian Rupiah | 1.9% | 1.7% | 0.0% | -3.4% |
| Thai Baht | 1.1% | 0.1% | -1.3% | -2.0% |
| Hong Kong Dollar | -0.1% | 0.0% | 0.0% | 0.0% |
| Korean Won | -0.2% | 1.2% | -3.9% | -3.8% |
| Singaporean Dollar | -0.6% | -0.1% | -2.1% | -3.0% |
| Vietnamese Dong | -1.2% | 0.0% | -0.1% | -1.9% |
| Indian Rupee | -3.5% | 0.5% | -0.3% | -2.8% |
| Malaysian Ringgit | -3.8% | -1.7% | -1.4% | -6.1% |
| Philippine Peso | -6.2% | -4.1% | 0.0% | -2.3% |
| Chinese Yuan | -6.5% | 0.1% | -1.6% | -1.9% |

Silver lining

Fortunately, there is a silver lining to peso weakness. First, the purchasing power of OFWs will increase as the peso weakens. Second, our BPOs will become more competitive as the cost of locating here becomes cheaper. Third, our exports will become more competitive. Finally, tourism will get a boost as we entice tourists, especially those from China.

Build, Build, Build

With the sharp correction our stock market is experiencing, it seems that investors are forgetting that the Philippines just reported GDP growth of 7.1% in the 3rd quarter, the fastest in Asia as of this writing, beating even China. Moreover, the government has unveiled its “Build, Build, Build” infrastructure program which should boost growth significantly in the coming years. The first phase of the ambitious tax reform package has also been submitted to Congress, with the Department of Finance expected to file the next 3 packages in 2017.

Adjustment phase

With investors and traders around the world caught flat-footed by Trump’s monumental victory, asset classes are now going through an adjustment phase. Policy uncertainty will cause volatility to remain heightened until Trump can clarify his policies when he is inaugurated as the 45th President of the United States. Higher interest rates and Fed policy tightening may continue to weigh on emerging market currencies. We hope that the government’s solid economic agenda and the Philippines’ high GDP growth will offset the negative sentiment prevailing in the local financial markets.

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