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By Wilson Sy

Where is Santa?

Where is Santa? Investors usually expect a Christmas rally, but it seems that Santa missed the Philippine stock market this year. Is Santa stranded in the US? Was he stuck in traffic? Maybe he forgot to include us in his list.

Santa Claus came to town

Santa missed Manila, but he did come to town in New York. On the other side of the globe, investors are rejoicing as Santa has brought merry times to the US stock market. Following the election of Donald Trump as president, US stocks staged an epic rally which drove all four major US indices to reach new all-time highs.

The American Santa

This year, the Santa Claus rally in the US came in the form of an amazing run-up following Trump's election win. This has been called the Trump rally. US stocks, led by the banking and infra sectors, surged higher due to bullishness regarding Trump's prospective policies. In a recent article (*The Trump Card*, December 12, 2016), we discussed how the Trump government will use fiscal stimulus and engage in massive infrastructure spending to promote economic growth. On top of this, Trump plans to loosen existing regulations, effect lower corporate taxes and encourage companies to bring back or create more jobs in the US.

Making a list, checking it twice

Trump has so far compiled an impressive list of billionaires and businessmen to fill key Cabinet positions in his administration. The list includes the following:

- Steve Mnuchin (Goldman Sachs alumni) for treasury secretary
- Gary Cohn (Goldman Sachs president) as chief economic adviser
- Wilbur Ross (billionaire investor and owner of private equity firm WL Ross) for commerce secretary
- Betsy DeVos (billionaire and philanthropist) for education secretary
- Linda McMahon (owner of World Wrestling Entertainment / WWE) as small business administrator
- Rex Tillerson (Exxon Mobile CEO) for secretary of state

Recent notable nominations to Trump's billionaire/businessman list include Carl Icahn (billionaire, hedge fund manager and activist investor) as special adviser for regulatory reform and David McCormick (president of Bridgewater Associates, the largest hedge fund in the world) for deputy defense secretary. On top of these, we note that Jamie Dimon, president and CEO of JP Morgan, has been appointed as the next chairman of Business Roundtable (BRT), an organization of 192 CEOs of leading American companies. In a recent interview, Dimon said that his mandate is to promote policies that will grow the US economy and improve job creation in the country.

Jingle all the way

The appointment of experienced businessmen and prominent billionaires into the Trump Cabinet has drawn cheers from many businessmen and investors. For them, these appointments will support the implementation of the Trump admininistration's pro-business reform agenda. Ray Dalio, founder of Bridgewater Associates, noted that despite having less government experience, the potential Trump Cabinet has more business experience than any other past Cabinet. Moreover, Dalio said that these candidates are "bold and hell-bent on playing hardball" to effect major changes in economics, business and foreign policy. Dalio stated that "profit makers are likely to become heroes with significant power instead of villains with limited power." Ultimately, Dalio believes that the Trump Cabinet can "ignite animal spirits" that will unlock capital in the US economy.

Gonna find out who's naughty or nice

So far, the policies and appointments of Trump have perked-up investor excitement and confidence in the US. However, due to the size of the US economy and its capital markets, Trump's policies will inevitably affect the global macroeconomic picture. Engaging in fiscal stimulus to complement monetary policy in order to promote economic growth will result in a higher outlook for inflation, higher bond yields and consequently, expectations of faster hikes in US interest rates. These will reinforce the strength of the US dollar, which is already trading at multi-year highs.

While this backdrop has so far been positive for the US and other developed markets (DMs) such as Europe and Japan, currency weakness will be a major headwind for emerging markets (EMs), including the Philippines. Portfolio managers have already started to distinguish between winners and losers. As the lyrics in the popular Christmas song state, 'he knows if you've been bad or good' and 'he's gonna find out who's naughty or nice.' Moving forward, countries that put their houses in order and utilize prudent fiscal stimulus to spur or sustain economic growth are the ones that will be able to withstand the onslaught of Trumponomics and Trumpflation.

So be good for goodness' sake

If the US run-up were to result in a global bull market, other countries will also have to do their part in implementing reforms that will do good for their respective economies. Mohamed El-Erian, chief economic adviser for Allianz SE, recently said that the Trump rally can be sustained if the president-elect can get countries such as China, Germany and Japan to execute structural reforms that will re-balance their respective economies. El-Erian also explained that other countries must use fiscal stimulus along with monetary stimulus to promote economic growth.

Christmas in DMs, Grinchmas in EMs

Trump's prospective policies are expected to result in tailwinds for DMs and headwinds for EMs. This has been reflected in the recent performance of various DM and EM indices (*Winners and Losers*, November 28, 2016). In the table below, we show that DM indices have outperformed since Trump's election (Trump-to-date) and are near their recent highs (peak-to-date). Hence, many DM indices have done well in year-to-date terms. On the other hand, EM indices have fallen significantly since Trump's election and from their highs for the year.

Returns of various DM and EM indices

Country	Index	Trump-to-date	Peak-to-date	Year-to-date
US	Russell 2000	14.8%	-1.2%	20.7%
Japan	Nikkei	13.1%	-0.3%	2.1%
US	Dow	8.7%	-0.2%	14.4%
Europe	Euro Stoxx 50	8.3%	-0.2%	0.2%
US	S&P 500	5.8%	-0.3%	10.8%
US	Nasdaq	5.2%	-0.4%	9.1%
Singapore	STI	1.8%	-3.0%	-0.4%
Thailand	SET	0.0%	-2.7%	17.2%
China	SHCOMP	-1.2%	-7.5%	-12.1%
Malaysia	KLCI	-2.8%	-6.4%	-4.5%
India	Sensex	-5.6%	-10.3%	-0.3%
Mexico	Mexbol	-6.8%	-7.2%	5.1%
Indonesia	JCI	-8.1%	-8.1%	9.5%
Brazil	Ibovespa	-9.7%	-10.8%	33.6%
Philippines	**PSEi**	**-10.2%**	**-19.0%**	**-5.6%**

Sources: Bloomberg, Wealth Research

Note that as of last Friday, the PSEi has fallen 10.2% since the US election and 19% from its all-time high. Based on the table above, the PSEi is the worst performer both in Trump-to-date and peak-to-date terms. Moreover, the PSEi is down 5.6% year-to-date and is on-track to deliver an unusual negative year.

Has Santa Claus forsaken the Philippines?

Though Santa has gifted the US with an epic stock market rally, he has so far been absent in the Philippines. Will he just stay in the US and totally forsake us?

In Chapter 10 of our book Opportunity of a Lifetime (see pages 192 and 195) we discussed the Santa Claus rally and the January effect. We noted that these have caused historically higher batting rates and higher returns for the PSEi during the months of December and January. Though our stock market is 3.2% down this December, we will be watching the last three trading days of the year, just in case Santa decides to make a surprise last minute visit. Note that the last times that the PSEi delivered negative returns in December were in 2008 (global financial crisis) and 2013 (taper tantrum + Yolanda).

In any case, based on our data which dates back to 1987, the PSEi has a 62% chance of turning in a positive return in January, while the average return for the month of January is 2.6%.