Philequity Corner (January 1, 2018)
By Wilson Sy

2017 – A Record Year for Stocks

Against all odds, 2017 proved to be a record year for stocks. After numerous attempts, the PSEi managed to break above the formidable 8,000 resistance level, eventually reaching a new record intraday high of 8,640 on the last trading day. We ended the year at 8,558.42, a new closing high and up a stellar 25.1% in 2017.

Behind the bull run

In previous articles, we reiterated our conviction that the PSEI would eventually make new historic highs (see *Back at 8000,* 31 July 2017). We explained that there are 4 main reasons behind the bull market in Philippine stocks, namely, (1) synchronized global economic expansion, (2) accelerating corporate earnings, (3) the global bull market in stocks and (4) tax reform.

The Amazing Bull

What is amazing about this bull run is the capacity of the market to set aside political noise and focus on economics and corporate earnings. Contentious and provocative speeches by both Philippine and US presidents were tuned out by investors. Investigations into Russian interference in US elections and the recent Catalonian separatist movement in Spain were also largely ignored by market participants.

Global bull market

Led by the US, most stock markets have made new all-time highs, touched multi-year highs or achieved milestones unseen for decades. For instance, the Dow Jones index achieved 71 new highs last year and notched its first 9-month winning streak since 1959. As one can see in the table below, 2017 was truly a record-breaking year for stocks. US equity indices had an average return of 21.5%, European stock markets averaged 14.8%, while Asian benchmarks had a mean return of 20.6%. All in all, the MSCI All-World Index, the weighted average of every stock market in the world, was up an impressive 21.6% last year.

2017 performance of global stock markets

America	YTD return	YTD $ return
Nasdaq	28.2%	28.2%
Dow Jones	25.1%	25.1%
S&P500	19.4%	19.4%
Russell 2000	13.1%	13.1%

Europe	YTD return	YTD $ return
Switzerland	14.1%	19.4%

Asia	YTD return	YTD $ return
Vietnam	48.0%	48.4%
Hong Kong	36.0%	35.0%
India	27.9%	36.0%
Philippines	25.1%	24.5%
South Korea	21.8%	37.6%
Indonesia	20.0%	19.3%
Japan	19.1%	23.6%

Italy	13.6%	29.7%
Germany	12.5%	28.4%
France	9.3%	24.7%
UK	7.6%	17.8%
Spain	7.4%	22.6%

Singapore	18.1%	27.9%
Taiwan	15.0%	25.0%
Thailand	13.7%	25.0%
Malaysia	9.4%	21.3%
China	6.6%	13.7%

Source: *Wealth Securities research*

The second phase of the bull market

In order for one to have conviction in this bull market, one has to understand how it all started – with zero interest rates and unconventional monetary policy. We discussed this extensively in Chapter 4 of our book, Opportunity of a Lifetime, and in numerous Philequity Corner articles since 2008. To stave off a double-dip recession and deflation, central banks around the world coordinated their actions, starting the Great Global Monetary Easing (see *The Great Global Monetary Easing*, 22 October 2012).

Now, we can see that the fruit of coordinated central bank action is the synchronized global economic expansion we are experiencing now. Thus, from the interest rate-driven 1st phase of the bull market, we have moved into the 2nd phase of the bull, one that is earnings-driven.

Monetary stimulus to fiscal stimulus

With monetary stimulus having played its role in sparking economic expansion and reflation, the focus is now shifting towards fiscal stimulus. One example of fiscal stimulus is tax reform. In fact, investors had been paying very close attention to tax reform both in the Philippines and US (see *A Tale of Two Tax Reforms*, 4 December 2017). Similarly, both countries were able to pass landmark tax reform measures just recently, electrifying their respective stock markets. Moreover, governments are now relaxing their regulatory policies and making them less stringent to spur bank lending and further stimulate their economies.

Sending the right signal

After much debate and lobbying, President Duterte was finally able to sign the first package of the comprehensive tax reform program. Though additional revenues of PhP 90 billion are below the DOF's target, it sent the right signal to investors. More importantly, the line item veto by President Duterte sends a strong message that the government is serious about its push to generate more revenues to fund its massive infrastructure spending program. After the line veto was announced, the market moved up by 280 points and foreign buying amounted to PhP 5.4 billion, ending the year at a new all-time closing high. The peso even managed to break below the 50/$ resistance level. It ended the year at 49.93 to the dollar.

9000 then 10000

For followers of technical analysis, the breakout above this three-year consolidation has a target of 9,000 and a medium to long term objective of 10,000. This ties in with our fundamental target of 9,500 and our call that the PSEi will make new highs on the back of the 4 reasons mentioned earlier.

New Year, New High

With global equity markets the world over making new records in 2017, we believe that this trend will continue in 2018. Synchronized global economic growth and accelerating corporate earnings with tax reform as a catalyst are the legs of this 2nd phase of the bull market. As we have said in the past, we expect these record-breaking runs to continue because new high means higher! We wish our readers and investors a Happy and Prosperous New Year!

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