



Philequity Corner (January 8, 2018)
By Wilson Sy

Starting the New Year with A Bang!

Last week, we wrote about how 2017 turned out to be a record year for stocks despite all the volatility and political turmoil. We also said that we expect this trend to continue in 2018 (see *2017 – A Record Year for Stocks*, 3 January 2018). The strong move in the 1st trading week of 2018 supports our bullish thesis.

Breaking records in January

For the first week of January, the PSEi was already up 212 points YTD (+2.47%) on the back of net foreign buying of PhP 730 million. Note that because of the New Year holidays, this happened in a span of just 3 days, making it more impressive. Even more remarkable is the PSEi's return in the past month – since December 4, our index gained a whopping 8.4% or nearly 700 points. Finally, on Friday last week, the PSEi notched a fresh intraday record of 8,858 and a new record closing high of exactly 8,770. This is how to start the New Year with a bang!

January effect

This strong January start does not come as a surprise as statistics show that the first month of the year is a seasonally strong period for stocks. Using data going back to 1988, the month of January has an average return of 2.73% and a batting average of 63%. The strength we saw last week confirms this statistic.

Trifecta

The bull market we are experiencing is led by the US. The 3 major equity indices of the US - the Dow Jones index, S&P 500 and Nasdaq Composite – all hit record highs and numeric milestones. Last week, the round number milestones reached were Dow 25000, S&P 2700 and Nasdaq 7000. In fact, the Dow Jones index recorded its fastest 1000-point rise in history, doing so in just 23 trading days. This trifecta of new highs and round number records reinforces the leadership that the US is providing in this global bull market.

The bull run explained in 4 phrases

Though we mentioned the reasons behind our bull market in last week's article, we will reiterate them here for the benefit of our readers and clients who were not able to read it because they were on holiday vacation - 1) synchronized global economic expansion, (2) accelerating corporate earnings, (3) the global bull market in stocks and (4) tax reform.

Witnessing the spectacle of a bull run

As we explained in our book, *Opportunity of A Lifetime*, the bull market has its birth in the aftermath of the 2008 Financial Crisis which nearly brought about financial armageddon. In recent months, we have seen the stock market make new highs day after day. What we are witnessing now is the spectacle of

the greatest bull run in history. We have to be aware this is happening not only in the US or in the Philippines, but all throughout the world. The bull market we are experiencing is truly historic and one for the books.

Dollar enigma

However, there is a phenomenon unfolding that befuddles analysts and strategists. Normally, a strong US stock market would continue attracting more flows, causing the US dollar to appreciate. This time though, US equities are making new all-time highs while the dollar is dropping. This is happening despite many analysts forecasting dollar strength on the back of tighter US interest rates and tax reform. This is an enigma that continues to mystify many economists and strategists. We will explain this phenomenon in our investors briefing on February 24 at Meralco Theater.

While you were sleeping, peso broke below 50

While many were enjoying their Christmas holidays and very few were watching the markets, the peso quietly broke the crucial resistance level of 50/\$. This is very significant because many houses expected the peso to end 2017 at 51, 52, or even as low as 54. Instead, the peso appreciated from 50.56/\$ to 49.88 in the past 3 weeks, even touching a low of 49.70 last week. This strength can be explained by the dollar's overall weakness against most currencies.

If the peso stays below 50 and continues its upward trend, then technicals indicate that it will be targeting 48.50 to 49. This is a boon for the stock market as it will attract more foreign flows. In addition, it may aid domestic consumption growth by partially offsetting the inflationary impact of rising gasoline prices. In a future article, we will be writing about our outlook on the peso, US dollar and other currencies in more detail.

Path to Prosperity

Though the US was the epicenter of the 2008 global financial crisis, it led the way during this bull market in stocks. From unconventional monetary policy, it is now implementing pro-growth and pro-business fiscal policy. The US is showing the world the path to prosperity. Similar to what has happened in the US, the DOF's Comprehensive Tax Reform Package was key to the record highs we are seeing in Philippine stocks.

Incidentally, the Manila Stock Exchange Foundation donated to the Philippine Stock Exchange a sculpture called "Path to Prosperity" by Ovvian Castrillo. The public will get to see it once the PSE moves to its new building, the Philippine Stock Exchange Tower, at BGC.

Believe in the bull

In a previous article, we wrote about how this bull market was quite unloved (see *The Unloved Bull*, 18 July 2016). However, if one knows how the bull market started, how monetary stimulus averted a financial collapse and the reasons behind the bull market, one will have conviction to hold on to his positions and stay the course. The 4 main reasons we mentioned above are not one-off events, but catalysts that we expect to continue in the medium to long term. Thus, we recommend that our readers believe in this bull market like we do, hold on to their stocks and see their portfolios grow as our market makes more record highs in 2018.

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.