



**Philequity Corner (November 5, 2018)**  
**By Wilson Sy**

### **Good Riddance, October!**

After seeing red all over during October, investors finally heaved a sigh of relief as stock markets recovered on the last day of the month. The PSEi gained 1.77% on October 31 as the crucial 7000 support level held strong. Similarly, the US experienced one of its worst selloffs in recent history. The tech-heavy Nasdaq plunged 9.2% in October, its worst month since November 2008, during the US Financial Crisis. The S&P 500's 6.9% loss was its worst since September 2011. After dragging the whole world down in October, US equities rallied last week, with the Dow Jones index rising 960 points over 3 straight days.

### **Foreign selling streak finally ends**

Not only did the PSEi end October on a strong note, but the record streak of net foreign selling has finally come to a close. We monitor foreign flows on a daily basis and we wrote about this unprecedented exit of foreign funds in last week's article (see *Red All Over*, 29 October 2018). 44 straight days of net foreign selling amounting to PHP 22 billion was a nightmare for investors, who are glad that it ironically ended on Halloween. If foreign funds reverse their selling or at least pause, this will give our market the breathing space to recover.

### **Peso gains ground despite dollar strength**

Investors can also rejoice in the peso's recent strength. Despite the dollar index, DXY, strengthening by 2% in the past month, the peso actually appreciated from 54.34 to 53.32/\$ over the same timeframe. Interestingly, the peso's appreciation came amidst bearish forecasts from foreign houses who were expecting the peso to weaken further. We also note that the other ASEAN currencies actually weakened in the past month, making the peso a clear outperformer recently. If this trend continues, it will be a boon to both Philippine stocks and bonds. The BSP's aggressive rate hikes, hawkish language and the belief that government can decisively address food inflation helped our currency strengthen even when our neighbors were weakening.

### **Oil plunge to benefit Philippine economy**

Another blessing for Philippine stocks is the sharp drop in oil prices. With Trump unwilling to impose widespread sanctions on Saudi Arabia over the killing of journalist Jamal Khashoggi, oil prices plunged. Prospects of lower demand in 2019, waivers granted to 8 countries for their purchase of Iranian oil, as well as potentially higher supply from US & OPEC countries caused crude oil prices to drop 15% in the past month – a big positive for the Philippine economy and an antidote to rising inflation.

### **A crucial week**

Investors should watch developments this week very closely. We enumerate these events below:

1. **Bidding for Clark Airport operations and maintenance – November 5**

2. **October inflation figure for the Philippines** – November 6
3. **US midterm elections** – November 6
4. **Result of bidding for 3<sup>rd</sup> telco in the Philippines** – November 7
5. **Fed Open Market Committee policy meeting** – November 7 to 8
6. **3<sup>rd</sup> quarter GDP growth rate for the Philippines** – November 8

### **Trump's surprise tweet on All Saints Day**

On the first day of November while Filipinos were on vacation, Trump made a surprise tweet:

**“Just had a long and very good conversation with President Xi Jinping of China. We talked about many subjects, with a heavy emphasis on Trade. Those discussions are moving along nicely with meetings being scheduled at the G-20 in Argentina.”**

This tweet of a potential deal that could end the US-China trade war is a potential game changer not just for China, but also for emerging markets, including the Philippines. It is too early to say if this is just electioneering or indicative of a real deal, but it gives investors hope that this trade war may finally end before it gets any worse. However, in an interview, chief economic advisor Larry Kudlow said that while the meeting between Trump and Xi Jinping is “definite”, the US “is not on the cusp of a trade deal. That said, if a trade deal is finally reached, emerging markets may stage a very strong recovery.

### **Looking forward to Christmas and Valentine's**

Given how destructive Red October was on one's portfolio, investors are all saying “Good riddance, October!” Fortunately, people have another thing to look forward to. In Chapter 10 of our book, Opportunity of a Lifetime, we discussed seasons in the stock market. In page 198, we showed that the strongest seasonal period for the stock market is from Halloween to Valentine's. Over the past 30 years, the average return of the PSEi over this time period is 9.6%. Moreover, the PSEi has a positive return in 73% of the time during this period. Thus, for investors looking to increase their exposure in equities, this may be an opportune time to get into the stock market at low prices.

### **Are we there yet?**

2018 has so far been a bloody year, which was made worse by a disastrous October. As of Wednesday's close, the PSEi is down 16.7% YTD and 21.3% below its all-time high of 9078. Is this 9-month correction finally over? Have we hit bottom? Are we there yet?

Fortunately for many investors, the stock market may possibly be in a bottoming process. The peso has improved recently, oil prices are dropping, inflation may have peaked and the US-China trade war may finally come to a close. There are a number of events happening this week that may move the market in either direction. We hope that these crucial news events will be positive for the market.

*Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit [www.philequity.net](http://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](mailto:ask@philequity.net).*