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Goodbye TINA!

The stock market has not been very good to investors this year because of the ongoing US-China trade war which has weighed on emerging markets, including the Philippines. Inflation concerns also dampened sentiment for Philippine stocks as consumer spending slowed. Another reason behind the stock market's weakness is the departure of TINA.

Hypnotized by TINA

Readers may be wondering who TINA is and why we are writing about her. We are not talking about a person, but the acronym "There Is No Alternative". Coined by Wall Street, this acronym explains why investors piled into the stock market, creating the longest bull market in history. This encapsulates how stocks were the best asset class to invest in during the past 9 years. Since the 2009 bottom of the previous bear market, both the PSEi and S&P 500 have quadrupled, making investors who caught the bottom and stayed the course reap significant profits. Over the past 9 years, this concept of TINA has hypnotized many investors who invested heavily in stocks.

Under the spell of QE

In order to bring the world out of the 2008 recession, central bankers led by then-Fed Chairman Ben Bernanke embarked on a wave of global monetary easing. The US led the way with quantitative easing (QE), where interest rates were brought to zero percent, and even to negative in some cases. TINA encouraged companies to borrow for expansion and individuals to invest in riskier assets like stocks. The theory was that if the stock market goes up, it will help the global economy recover. We wrote about this extensively in chapter 4 of our book, Opportunity of a Lifetime. Under the spell of QE, both the US economy and stock market recovered, lifting the entire world with it.

No longer a slave

However, like any medicine for an illness, the world cannot be hooked on QE forever. In the past years, the Fed has slowly reduced its bond buying. Global interest rates started creeping up slowly, although monetary policy still remained loose. This year though, with US economic growth in overdrive because of Trump's tax cuts, the Fed took this opportunity to tighten monetary policy. In other words, the Fed is finally normalizing interest rates. 3 rate hikes have already been implemented this year. With one more expected by yearend, the era of QE has ended. No longer a slave to easy money and QE, pension funds and individual investors now have an alternative of investing in fixed income instruments.

Interest rates rose sharply this year

Trump blames the Fed's rate hikes for the stock market's correction. While the Fed is not entirely at fault, it is clear that the initial spike in US 10-year Treasury yields to above 3% triggered the correction in October. Moreover, as equity prices fell, bond yields remained elevated. At this level, some investors have actually started shifting to bonds. In fact, bond yields are now at their highest levels since the bull market started in 2009. Likewise, Philippine interest rates have also risen as our own Bangko Sentral has raised interest rates by 1.75%, bringing benchmark rates to 4.75%.

Fixed income instruments starting to look attractive

With central banks raising their benchmark rates, bond yields have risen significantly. Just last year, time deposits yield anywhere between 1-2%. Now, one can find 30-day time deposits that yield higher than 5%. Philippine T-bills are also promising. 91-day gives 5.08%, 182-day yields 6.23% and 364-day earns you 6.51%. If you want to get a bit more yield, one can opt to invest in corporate bonds. Among the highest yielding bonds of blue chip companies are Metrobank's recently issued 2-year paper which yields 7.15% and Petron's 5.5-year bond which gives one 7.82% per annum. With higher yields locally and globally, fixed income assets have started to look attractive.

TINA no more

The main premise behind TINA is that returns of other asset classes, especially fixed income, are so low that investors have no other alternative but to buy equities. Looking at the examples above, some bond yields not only exceed inflation, but also allow a bondholder to double his money in 9 years. This level of fixed income yields should prompt one to seriously review his asset allocation. Thus, we think it is appropriate to leave you with lyrics from the song "Tina" by Gary Lewis and the Playboys:

Tina, I held you in my arms and the world stood still,
And all at once I realized my heart's at the mercy of your will.
Tina, I kissed your tender lips and fell under your spell,
I'm so devoted to you 'cause I love you and I always will.
'Cause you hypnotized me and made me your slave,
A slave to your kisses - a slave to your kind, loving ways.
Tina, you thrilled me with your touch and I can't get free;

With central banks normalizing interest rates, the environment for TINA is no longer around. Now that bond yields have started rising, investors have the option of balancing their asset allocation by increasing exposure to fixed income assets. After being thrilled by TINA's touch for a long time, it looks like investors have finally snapped out of her spell.

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.