



Philequity Corner (December 24, 2018)

By Wilson Sy

You better watch out, you better not cry

2018 has been an agonizing year for stocks. Last week was particularly painful as the US stock market posted its worst weekly performance since the 2008 Global Financial Crisis. Investors watched out for precipitous drops in the market and cried over staggering losses in their stock portfolios. Many are probably pouting as Santa Claus has not come to town.

You better watch out

Investors better watch out and monitor important developments which we list below as these have driven the recent dive of the market.

- 1. A policy mistake by the Fed.** Last week, the Fed raised its benchmark rate for the fourth time this year amid a plunging stock market. Many pundits believe that the Fed is 'tone deaf' and 'data indifferent' for crafting a hawkish policy statement despite an ongoing trade war and a synchronized global economic slowdown. The 'Fed Put' is now gone as accommodative monetary policy will not be there to save the stock market during turbulent times.
- 2. US-China trade war.** Failure to hammer a trade deal between the US and China will result in an escalation of tariffs. This may drag the outlook for global growth while also exacerbating the economic slowdown that many countries are already experiencing.
- 3. Rising interest rates.** The ongoing normalization of interest rates and tightening of monetary policy have tempered rising inflation but have also dampened global growth.
- 4. Synchronized global economic slowdown.** US economic growth is expected to moderate next year. Meanwhile, the Chinese economy is slowing and is clearly hampered by the trade war. Growth in Europe remains tepid while the Japanese economy is contracting.
- 5. Inverted yield curve.** The yield on the 2-year US Treasury has climbed above the 3-year and 5-year yields. This spooked the market as an inverted yield curve usually signals a looming recession.

You better not cry

Reminiscent of the market collapse in 1987 and 2008, last week's bloodbath left many investors crying in pain. The Dow and S&P 500 are both down 12% in December. Barring any sharp recovery, the US stock market is on pace for its worst December performance since the Great Depression in 1931. The market carnage spilled over globally as Japan is down 9.8% while Europe declined 5.4% this month. We are currently witnessing a rolling bear market as many regions, countries and sectors have dropped from their peaks and are now in bear territory.

You better not pout

The PSEi is down 12.6% year-to-date and will likely post its biggest annual loss since 2009. Nonetheless, we believe that investors should not fret and cry over the market's performance. Instead, we should remember that our stock market has posted positive returns in seven out of the last ten years. Moreover, despite a sharp drop, the PSEi is up 300% since the start of the longest bull market in history.

Annual returns of the PSEi since 2009

Year	Return	Year	Return
2009	63.0%	2014	22.8%
2010	37.6%	2015	-3.9%
2011	4.1%	2016	-1.6%
2012	33.0%	2017	25.1%
2013	1.3%	2018 YTD	-12.6%

I'm telling you why

Rather than crying and pouting with the rest of the world, I'm telling you why we Filipinos should instead count our blessings.

- 1. A resilient PSEi.** The PSEi bounced 9.3% from its recent bottom of 6,844 on November 13. The PSEi has been a relative outperformer this month compared to many other countries.
- 2. Inflation has peaked.** Local inflation eased to 6% in November from 6.7% in October due to lower oil prices, rate hikes from the central bank and government efforts to address supply-side concerns.
- 3. Big drop in oil price.** Oil has plunged more than 30% from its recent peak, with Brent crude dropping 11.3% last week. This is a game-changer for the Philippine economy.
- 4. BSP's impactful rate hikes.** The Bangko Sentral ng Pilipinas (BSP) hiked interest rates by 175 bps this year. The BSP's decisive actions controlled inflation and arrested the precipitous decline of the peso.
- 5. Philippine peso recovers.** After touching a 12-year low of 54.40, the peso has staged a recovery on the back of moderating inflation, a big plunge in oil and impactful rate hikes by the BSP.
- 6. Two winners in UAAP men's basketball.** Though the Blue Eagles were the champions, the UP community was even more ecstatic than the Ateneans. Robina Pe, the godmother of the UP Fighting Maroons, intimated to me that entering the Final Four and achieving a finals berth is already a dream come true for UP.
- 7. Philippines wins Miss Universe crown.** Last week, Catriona Gray wowed the world when she won the coveted Miss Universe title. Catriona thrilled Filipinos around the globe when she showed poise and confidence in representing our country. Catriona's performance displayed the gentler, graceful and beautiful side of Filipinos.

Santa Claus is coming to town?

Investors are wondering if Santa Claus is coming to town. However, instead of Santa, it was the Grinch (as personified by Fed Chair Jerome Powell) who came to town and stole Christmas. Amid rising uncertainty in the global front, Powell's hawkish stance raised concerns that the Fed's monetary tightening may have overshot targets and may exacerbate the ongoing global slowdown. Investors were frightened by growing fears that the Fed has triggered a bear market and a possible recession. Despite everything that is happening, we believe that it is important to count one's blessings instead of crying and pouting about the market's gloomy performance. We wish everyone a Merry Christmas!

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.