Philequity Corner (January 7, 2019)
By Wilson Sy

PSEi – top gainer in first week of 2019

The Philippines was a top performer for the first week of 2019. The PSEi was the best performing market in Asia and trounced all global indices except Brazil. Meanwhile, US markets logged their worst two-day start to a year since 2000 before staging a dramatic comeback last Friday.

Reasons behind the PSEi's outperformance

The PSEi posted a strong start for 2019. Our stock market gained 3.95% in local currency terms and 4.06% in US dollar terms for the first week of the year. Below, we enumerate the reasons why the PSEi was a top performing market.

1. **Inflation has peaked.** December inflation came in at 5.1%, below all analyst estimates. This was a deceleration from 6% in November and 6.7% in September and October. Slower inflation was brought by a sharp drop in oil prices and the government's effective efforts to address rice supply.
2. **Lower oil prices.** Aside from contributing to slower inflation, lower oil prices translate to a narrower trade gap for the Philippines. In addition, the drop in oil gave the government enough leeway to implement the second tranche of oil excise taxes mandated by TRAIN. This will help the government raise additional revenues, thus improving the country's fiscal balance.
3. **Rebound of the peso.** After touching a 12-year low of 54.48, the peso has bounced strongly and is now trading at the 52.50 level. The peso recovery has helped lower inflation while also stemming outflows from foreign investors.
4. **Foreign selling has abated.** From August to October last year, the Philippine stock market experienced a record 44 straight days of foreign selling, with net outflows reaching P22.8b. This brought net foreign selling for 2018 to P57.3b and P105b (excluding block sales). Foreign selling has abated since the record streak was broken while trickles of foreign buying have appeared. In last Friday's trading session, net foreign buying amounted to P1b.

Dow – down 600, up 700

In contrast to the PSEi's strong start, most global markets have been extremely volatile, led by the US. The Dow dropped 2.7% while the S&P 500 fell 2.5% in the first two trading days of the year. This marked the worst two-day start of a year for US stocks since 2000. However, after plunging by 660 points last Thursday, the Dow staged a dramatic comeback and surged 747 points last Friday.

A volatile global market

Below we list the developments which caused global markets to be so volatile.

1. **Global economic slowdown.** The US economy is expected to decelerate this year while China is weighed down by the trade war. Manufacturing activity has broadly slowed as China's PMI sank below 50 while PMI readings for different countries fell to multi-year lows.
2. **US-China trade war.** The US-China trade war started six months ago and has already taken a toll on the slowing Chinese economy. Another casualty of the trade war is Apple which reported weaker sales in China. Apple's troubles caused it to plunge last week, dragging the rest of the market with it.

3. **A policy mistake by the Fed.** Last month, the Fed raised interest rates while stating that the pace of balance sheet tightening would be maintained. This resulted in extreme volatility in the stock market which was already reeling from concerns on slowing growth and the US-China trade war.

A dramatic turnaround

After dropping in the first two days of 2019, markets ended the week with a sharp rebound on the back of various positive developments. Last Friday, China announced a cut in the reserve requirement for banks, causing Chinese and Hong Kong stocks to jump. Meanwhile, US nonfarm payrolls surged 312,000 vs. expectations of a 176,000 increase. This allayed fears of a broad-based weakness in the US economy. In addition, Fed Chair Jerome Powell said that the central bank will be patient and flexible with policy while hinting at possible changes in rate hikes and balance sheet tightening. This caused a dramatic turnaround in the stock market which was concerned about the Fed's tightening and how it might stifle economic growth.

Philequity launches MSCI Philippines Index Fund

As a sign of our optimism, we at Philequity partnered with MSCI Inc to launch a new fund for the New Year – the Philequity MSCI Philippines Index Fund. Our newest fund tracks the composition of MSCI Philippines Index, the most-followed benchmark for foreign institutional investors. Unlike other Philippine index funds which follow the 30 components of the PSEi, our new fund will only track the top 23 Philippine companies for foreign investors. Our latest offering will enable retail clients to invest in a fund which mirrors the performance of foreign portfolio managers.

New Year in the new trading floor

For the first time ever, PSE stockbrokers welcomed the New Year together in a new trading floor. Former Manila Stock Exchange brokers were housed in the Ortigas office while those from the Makati Stock Exchange went to the Ayala office. Now that they are unified, stockbrokers from the two factions occupy 88 trading booths in the exchange floor. In addition, out of the 120+ active brokers, 81 brokers are moving out of their Ortigas and Ayala offices to transfer to the new PSE Tower.

Philequity moves to PSE Tower

Along with the migration of many brokers to Bonifacio Global City, Wealth Securities, Inc, together with its affiliates – Philequity Management, Inc and Vantage Equities, Inc – is moving to the new PSE Tower. Here is our new office address:

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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) 250-8700 or email ask@philequity.net.