Philequity Corner (November 4, 2019)
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The bull lives

Many pundits and popular hedge fund managers predicted the demise of the bull market. They feared that the bull would soon die because of its age. Meanwhile, several well-known economists and analysts said that a recession is imminent. These have resulted in massive withdrawals in equities which flew to the safety of bonds. In spite of these headwinds, the S&P 500 closed last Friday at 3,067 while the Nasdaq ended at 8,386, both new all-time highs.

Ten years and counting

The bull market started on March 6, 2009 (see *666 on 3-6-9*, April 13, 2009). It is now ten years and eight months old, making it the longest in history. Despite this, it has earned the moniker "the most unloved bull market." Many investors have sold too early or have withdrawn their positions due to the sharp corrections and extended consolidations in this bull run.

The significance of a new all-time high

It is worth noting that the bull market has made new highs even as it continues to swim against skepticism and negative headlines. The move of the US market clearly debunks the doomsayers that say that the bull market is dying. As explained in our book *Opportunity of a Lifetime* (see Chapters 3 and 10), a market that has made new highs does not have resistance anymore. It often continues moving higher until it encounters a significant deterioration in fundamentals or sentiment.

Climbing a wall of worry

Before the breakout of US stocks, there were fears that the bull market would soon die. Below, we list recent concerns which threatened the bull run.

1. **US-China trade war.** The battle between the US and China has weighed on the economies of both countries. It has triggered uncertainty in the business community and stoked volatility in the stock market. A major escalation of the trade war would have been disastrous for equities and the global economy. Fortunately, both parties have agreed to a truce and are moving towards an initial deal.
2. **Global economic slowdown.** Many countries are experiencing slower economic growth while manufacturing has suffered globally.
3. **Inverted yield curve and recession fears.** Due to expectations of slower growth, long-term interest rates have gone below short-term rates. An inverted yield curve is a harbinger of a recession as all US economic recessions in the past 50 years have been preceded by a yield curve inversion.
4. **Negative interest rates.** At the peak, ~$17t worth of global bonds had yields in negative territory. A positive development is that ultra-low bond yields have bounced from their lows, potentially signaling an economic recovery.
5. **Attack on Saudi's oil facilities and tensions with Iran.** The bombing of two oil facilities in Saudi and US sanctions on Iran highlight the rising geopolitical tensions in the region. These have kindled fears of an oil price spike that may exacerbate the global slowdown.
6. **Political noise in the US and Trump's impeachment.** Last week, the US Congress passed a resolution for the impeachment inquiry of Trump, further adding to political noise in the US.

7. **Political upheavals around the world.** Protest actions have erupted not only in Hong Kong but also in Chile, Lebanon, Iraq, Spain, and Ecuador. Meanwhile, political upheavals have manifested in the election results of many European and Latin American nations, thus giving rise to far-left and far-right governments in several countries.
8. **Brexit.** The protracted divorce of the UK with Europe has weighed on the British economy. Both parties have agreed to extend the deadline for a Brexit deal even as the UK is headed for a snap election later this year.

Hopes for a trade deal drive markets higher

Three weeks ago, the US and China agreed to a ceasefire as Trump boasted that a substantial trade deal is being arranged (see *A Truce!*, October 14, 2019). China has pledged to increase purchase of US agricultural products while also addressing concerns on intellectual property practices. In exchange, the US shelved a tariff hike on Chinese imports and will potentially postpone a round of tariff hikes scheduled for December. These developments have fueled the ascent of US stocks to record highs.

Central banks hold the line

Aside from a potential trade deal, the actions of major central banks around the world have been important catalysts for the stock market. Last week, the Fed cut its benchmark rate for the third time this year. The Fed has been followed by various central banks which have either cut rates or provided monetary stimulus to their respective economies. For its part, the Bangko Sentral ng Pilipinas (BSP) has implemented cuts in its policy rate while also reducing reserve requirements for banks.

Best time of the year for stocks

The PSEi has bounced from a low of 7,514 in early October to last Friday's close of 7,977. Not many have noticed the rally because it was accompanied by thin market volume. Instead of watching the market, Filipinos are probably more preoccupied with the latest gossip and drama surrounding the Barretto family, the Philippine version of the Kardashians. Meanwhile, basketball fans are following the UAAP playoffs which will be held in a rare step-ladder format.

Though trading volume in our stock market has been tepid, we believe that the Philippines will benefit from the rally in US stocks. The US is the biggest economy and stock market in the world. The continued rise of the US market will ultimately redound to emerging markets, including the Philippines. What will drive the PSEi's momentum is the onset of Halloween to Valentine's. As explained in our book *Opportunity of a Lifetime* (see Chapter 10), Halloween to Valentine's is historically the strongest season for our stock market.

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