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By Wilson Sy

Markets fight the coronavirus

After many weeks of sharp decline, the PSEi rallied 4% last week, tracking the rebound of the US and other global indices. In this article, we explain why stock markets around the world, led by the US, rebounded despite the continued rapid increase in the number of coronavirus cases.

Fear of the unknown

The staggering increase in the number of infections has raised fears of a global pandemic and a doomsday scenario for China. Not much was known about the 2019 novel coronavirus when news first came out on January 23. We only knew that nCov spreads very fast and is highly contagious. Investors tend to assume the worst when there are a lot of unknowns and the market corrected precipitously because of this. However, global markets staged a strong rebound when more information about the novel coronavirus surfaced. Knowing more about the virus and witnessing the preventive steps undertaken by various governments have given investors confidence that the disease will eventually be controlled.

China sacrifices a province to save the whole world

China implemented a lockdown of Hubei in order to control the spread of coronavirus. Around 60 million people are now trapped in the province where the disease originated. Despite the humanitarian cost to Hubei residents, it appears that China’s quarantine efforts have been successful. 97% of all deaths and 67% of coronavirus patients are from Wuhan. Though nCov has spread to other countries, less than 1% of reported cases have come from outside China.

Lockdowns, quarantines, and travel bans

Other governments have likewise implemented stringent measures to fight the propagation of the coronavirus. Many, including the US and the Philippines, mandated a travel ban and cancelled inbound flights from China. Various countries have also instituted quarantine procedures to isolate citizens who recently visited China and other patients who are under investigation for nCov.

Pre-emptive strikes of central banks

Central banks around the world have taken a proactive stance in countering the potential fallout from the coronavirus. The People’s Bank of China injected $174b into the economy to cushion the impact of the virus. Bank of Thailand reduced its benchmark interest rate to a record-low while Singapore hinted of further policy easing. Last week, the Bangko Sentral ng Pilipinas (BSP) cut its policy rate by 25 bps. BSP Governor Ben Diokno said that the preemptive rate reduction is meant to insulate the economy from the potential adverse effects of the epidemic.

China halves US tariffs

Last Thursday, China announced that it is cutting tariffs on $75b of US imports by half. This follows the phase one trade deal between the US and China which was signed on January 15. It appears that trade relations between the US and China are now improving, a stark contrast from the fierce trade war waged by both countries in the past year. The reduction of tariffs should provide a much-needed stimulus to the Chinese economy and consequently shore up global growth.

Razon to the rescue

There is also positive news on the domestic front. Last week, Ricky Razon's Prime Metroline Holdings Inc agreed to acquire a 25% stake and 51% voting rights in Manila Water Corp (MWC). The subscription will raise P10.7b which the company can use to service debt payments. The tender offer at P13/sh should put a temporary floor on MWC after its steep drop due to heightened regulatory risk. This development, as well as negotiations with the government, will hopefully lift the overhang which has saddled water utility stocks and their parent companies.

WHO declaration may have signaled temporary bottom

The World Health Organization (WHO) has been able to mobilize support to counter the nCov outbreak after declaring a global health emergency on January 30. This prompted various countries to implement strict measures to stem the spread of the coronavirus. In 2003, markets bottomed shortly after WHO declared SARS a global emergency. When governments and international agencies admit that there is an epidemic, they take decisive action and the problem gets solved eventually.

Pace of new infections to dictate market direction

Markets rebounded because of optimism that the coronavirus epidemic will ultimately be resolved. However, as of this writing, the total number of nCov cases have reached 34,878 with 724 deaths. Based on extrapolation, the number of nCov fatalities in just two months will inevitably exceed the 774 deaths from the eight-month SARS crisis. News regarding the alarming pace of infections caused the US market to fall last Friday.

Meanwhile, Singapore has raised an orange alert to prevent further local transmission. There were also reports that there are more cruise ships which contain infected passengers. These raised fears about the unabated spread of the coronavirus and its potential destructive impact to China and the global economy. Going forward, the direction of the stock market will depend on the rate of increase or decrease in the number of infections. In this case, the market may eventually recover when the pace of new infections slows down because this signifies that the virus is already being contained.

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