Philequity Corner (February 24, 2020)

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The Vicious Baear Arrives

The bear has arrived. After eleven years, the longest bull market in history has ended. Without much warning, the bear delivered its most savage onslaught last week. The bellwether US stock market just suffered its fastest, most aggressive collapse into a bear market...ever...

Fastest 20% crash from the peak

We have just experienced the most violent four weeks in the history of the US stock market. **T**he Dow has dropped 20% from its peak faster than any other stock market crash. And it took just 20 trading days! Note that during the crash of 1929, it took 36 trading days to reach the –20% threshold and 38 days during the 1987 flash crash. In the 2008 global financial crisis, the 20% decline occurred after eight months.

Circuit breakers triggered worldwide

The bear attacked with such ferocity that circuit breakers were triggered in many stock exchanges worldwide. These included Asian countries like India, Japan, South Korea, Thailand and the Philippines. "Circuit breakers" are measures used to curb panic where trading temporarily halts if single-day declines breach specific threshold points.

In the New York Stock Exchange (NYSE), the circuit breaker was triggered twice last week (Monday and Thursday) after the benchmark S&P 500 index fell by 7%. In the Philippine Stock Exchange, the trading halted twice after the PSE Index hit a 10% daily decline threshold (Thursday and Friday). The last time that the PSE circuit breaker was triggered was on Oct 27, 2008, during the global financial crisis. The PSE index dropped 12.27% that day.

A horrific week for financial markets

While COVID-19 was clearly the culprit behind this move into bear market territory, it is the fear and uncertainty over the epidemic that is causing stock markets to fall sharply. Below are some of the significant events that happened last week:

1) The Dow Jones Industrial Average (DJIA) fell 2,352 points on Thursday and 2,019 points on Monday, the two largest point-decline on record.

2) The DJIA dropped 9.99% last Thursday, the second-worst percentage decline following the 22.6% Black Monday crash of 1987.

3) All the major US indices have entered bear-market territory. As of Friday, both the S&P 500 and the Nasdaq are down 20% while the Dow is down 22% from their peaks.

4) Having 1000-point swings in the DJIA is now the new normal. In 10 out of the last 15 trading days, the DJIA has moved up or down 1,000 points.

5) Volatility, as measured by the VIX or the so-called Fear Index shot to a record 75.5 last Thursday, surpassing the previous record of 62 in December 2008.

6) Crude oil registered its largest one-day price drop since the end of the Gulf War. It fell as much as 30% last Monday after a breakdown in the deal between Russia and Saudi-led OPEC.

7) Oil stocks took the worst beating as the Energy Select Sector SPDR fell 20% in just one day. Many oil stocks lost 30% - 50% on that day.

8) With all the uncertainty, investors went on a flight to safety, sending the 10-year US bond yield to a record low of 0.318%.

PSE Index crashes 20%

From a closing price of 6,353.26 last Wednesday, the PSE index crashed to an intraday low of 5,097.90 last Friday. This is equivalent to a 20% decline in just two days. The PSE Index also registered its 2nd and 3rd biggest drops on record after plunging 9.71% on Thursday and 6.76% on Monday.

Panic buying, hoarding and stockpiling

While investors are panic selling stocks, consumers are panic buying grocery items. Worse, some people have resulted in hoarding and stockpiling beyond their needs, causing shortages in masks, toilet paper, alcohol, and hand sanitizers.

Trump announces US National Emergency Act

The US seems to have gotten its act together late Friday with the national emergency act. The S&P 500, Dow and Nasdaq all surged more than 9% as Trump declared a national emergency to combat the virus. Around the world, governments have also announced economic stimulus packages to help companies and workers impacted by the COVID-19 pandemic. Central banks, led by the Fed also shored up liquidity after the panic-driven crash in financial markets threatened a liquidity crunch.

Community quarantine, a step in the right direction

Governments worldwide have implemented social distancing, lockdowns, and travel restrictions in a bid to slow the virus spread. Several European countries like Italy, Ireland, and Denmark have enforced nation-wide lockdowns. In the Philippines, the enforcement of community quarantine and curfews is a step in the right direction. However, more severe and drastic measures may be imposed if the spread accelerates out of hand.

Silver lining

The US led the way out of the 2008 global financial crisis. This time, it is China that is showing the resolve and the model on how to combat this pandemic. China, which is the epicenter of the COVID-19 pandemic, has shown that its authorities can “flatten” the Coronavirus curve. China took extraordinary steps to lockdown Wuhan and other cities to control the spread of COVID-19. Since then, the spread of the coronavirus has slowed to a trickle.

Singapore, South Korea, and Hong Kong have shown similar success, indicating that with a systematic government-led approach, we can win the fight against COVID-19. What China, Singapore South Korea, and Hong Kong have done is a silver lining in these scary times. Containment of this global pandemic will create a bottoming out process that will give birth to the new bull market.

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) 8250-8700 or email ask@philequity.net.