



Philequity Corner (October 26, 2020)

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PSE Index – world's best last week

The PSEi surged 9.9% last week after being an underperformer since the start of the pandemic. This came on the back of the government's announcement to ease quarantine protocols and gradually reopen the economy. News of the reopening lifted market sentiment, thus driving the PSEi to be the best performing stock market in the world last week.

Reopening lifts Philippine stocks

The government eased various quarantine restrictions to allow for a gradual reopening in order to stimulate the economy. We list down recent changes to quarantine guidelines below.

- 1. Mall sales to be allowed.** The Inter-Agency Task Force for Infectious Diseases (IATF) has widened the permissible operating hours for business establishments. This includes allowing major mall sale events, but subject to operating guidelines outlined by the Department of Trade and Industry (DTI).
- 2. Less stringent rules on businesses operations.** The IATF has permitted dine-in restaurants, barber shops, and other personal care services to expand their operations up to 50% of their capacities.
- 3. More transportation.** Passengers are now required to stay one seat apart in public transportation, a change from the one-meter-rule that was set before. The government has allowed more jeepneys, buses, and trains to operate and accommodate more passengers. This enables more people to go to work, purchase goods, and avail of various services.
- 4. Resumption of non-essential travel.** The government lifted the ban on non-essential travel, allowing Filipinos to travel domestically or internationally. This bodes well for the airline industry and tourism sector which were heavily impacted during the pandemic.
- 5. Curfew hours shortened.** Except in Navotas City, curfew in Metro Manila is from 12am to 4am. This was previously set at 10pm to 5am.
- 6. Age-based restrictions are loosened.** Persons aged 15 to 65 yrs old are now permitted to go out, a wider range compared to 21 to 60 yrs old which was the requirement under the previous policy.

Flattening the curve

The reopening of the economy was prompted by a flattening of the coronavirus curve. The country's infection rate or R_0 fell below 1 in September. New daily cases have been kept at ~2,500 in the last three weeks while the 7-day average has gone down to 2,020 cases. However, we note the absence of testing done by the Philippine Red Cross as this may have contributed to the recent drop in new cases.

Other factors that drove the PSEi rally

Aside from the reopening of the economy, there were other factors that supported an improvement in market sentiment. We discuss these developments below.

- 1. Shift from leaders to laggards.** Expectations of a global economic recovery have spurred a shift from secular growth to value stocks, and a move from defensives to cyclicals. There is also a global rotation from outperformers to laggard countries such as the Philippines.

2. **From foreign selling to foreign buying.** Over a two-month stretch, the Philippine stock market experienced 45 consecutive days of net foreign selling amounting to P32.6b. This changed last week when the market benefited from three straight days of net foreign buying amounting to P1.4b.
3. **2021 recovery prospects.** With the potential availability of a coronavirus vaccine by middle of next year, the government expects the economy to recover in 2021 and post GDP growth of 6.5% to 7.5%.
4. **Technicals.** After consolidating in the past four months, the PSEi decisively breached 6,000 last week. Momentum has carried the PSEi above its 50-day, 100-day, and 200-day moving averages for the first time since the pandemic ensued.
5. **Mining and oil.** On October 7, Finance Secretary Sonny Dominguez announced that the government is pushing for the revival of the mining sector. This is a timely move given the recovery in industrial metals such as copper and nickel. Meanwhile, on October 15, President Duterte lifted the moratorium on oil exploration in the West Philippine Sea. As a result, mining and oil stocks surged. The PSEi's mining and oil sector index is up 27% since October 7.
6. **House approves budget.** The House of Representatives approved the P4.5t national budget on its final reading, thus removing any potential delays that may hamper government spending.
7. **Stable peso.** The Philippine peso has remained relatively stable, in large part supported by the ongoing weakness of the US dollar. Benign inflation and a stable peso have given the central bank leeway to ease monetary policy to support the economy.
8. **Hopes for a vaccine.** President Duterte reiterated that the government will make a deal with China and Russia for their vaccines. Last week, a vaccine made by China's Sinovac Biotech has been declared as the best and safest coronavirus vaccine by Brazil. This came after the vaccine showed the most promising results in a late-stage clinical trial. Meanwhile, Pfizer released its timetable which showed that a vaccine can be made available by yearend and can be mass produced by June 2021.

Remain vigilant amid the reopening

Investor sentiment has improved since the government eased quarantine restrictions. This can spur economic growth and bring down unemployment which reached historic highs during the pandemic. While the reopening is good for many Filipinos, it is important to continue exercising caution, physical distancing, and proper hygiene. The second wave of infections in Europe which came after reopening its economy serves as a cautionary tale for us. We should look at the examples of countries such as China, Korea, Taiwan, and New Zealand. They successfully managed infections by implementing best practices in prevention, detection, contact tracing, isolation, and treatment. As shown by the spectacular return of the PSEi last week, the performance of the stock market is strongly correlated with the containment of the virus and a reopening of the economy.

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