



Philequity Corner (November 23, 2020)

By Wilson Sy

Pandemic over by next year?

The US market closed at record highs last Monday before pulling back by the end of the week. Meanwhile, the Philippine stock market continued to move higher, sustaining its spectacular run-up starting October. Several factors contributed to an improvement in sentiment. These include the election of Biden as US president, Pfizer and Moderna's vaccine announcements, and the comment of public health expert Dr. Scott Gottlieb that the pandemic may be over by next year.

The US now has two vaccines

A week after Pfizer's announcement, Moderna disclosed that their coronavirus vaccine is 94.5% effective. The promising trial results would mean that the US will have two effective vaccines against the coronavirus. This prompted the optimistic remark of Dr. Gottlieb, a former commissioner of the US Food and Drug Administration. Dr. Gottlieb said, "Once we get these vaccines in sufficient quantities heading in 2021, the combination of the fact that a lot of the population will have already had Covid, combined with the fact that we'll be vaccinating the public with a highly effective vaccine, we could effectively end this pandemic in 2021 with our technology."

Moderna intends to produce 20m vaccines by end-2020 and 500m to 1b globally in 2021. A key difference between the two is the cold storage temperature – Pfizer's vaccine has to be stored at minus 70 degrees Celsius and may thus require expensive freezers. Meanwhile, Moderna's vaccine should be kept at minus 20 degrees Celsius. It can be stored in standard freezers and refrigerators for 30 days prior to vaccination.

Surprise cut by Diokno

Last Thursday, Bangko Sentral ng Pilipinas (BSP) Governor Ben Diokno delivered a 25bps cut on the central bank's key policy rate, bringing it down to an all-time low of 2%. Majority were expecting the central bank to stay put, and Governor Diokno was savvy in pulling out a surprise despite being very candid and open most of the time. In its policy statement, the central bank said that there was a "critical need for continuing policy support measures to bolster economic activity and boost market confidence."

Big bounce back in 2021 GDP

Finance Secretary Sonny Dominguez stated that he expects "a big bounce back in GDP growth next year" after the country suffered its worst recession of this generation. According to Secretary Dominguez, a potentially effective COVID-19 vaccine available by mid-next year "should inject a lot of confidence in the country." The Finance Secretary said that additional stimulus contained in the P4.5t national budget, combined with various measures to aid banks and businesses, should support our economic recovery next year. Governor Diokno added, "As we entered into the third quarter of the year, preliminary data from July to September suggest that the worst is over."

OFW Remittances recover in September

Last week, the central bank reported that OFW Remittances for the month of September rose 9.1% to \$2.9b. This was a significant recovery from the 4.2% decline in August. Stronger remittances in

September narrowed the year-to-date contraction of OFW Remittances to 1.4% from 2.6% in August. Governor Diokno said that remittances are trending better than the central bank's forecast of a 5% decline for full-year 2020. Additionally, our country's gross international reserves (GIR) climbed to a new high of \$103.8b, providing our economy with sufficient liquidity buffers against external shocks.

PSEi - best stock market in Asia

Seen as the primary beneficiary of coronavirus vaccines, the Philippines outperformed other emerging markets as sentiment gradually improved. Recent local developments (central bank's surprise rate cut, government expectations of robust GDP growth next year, recovery in remittances) all bode well for our stock market and have made investors more bullish. With last Friday's close of 7,170, the PSEi is up 77.5% from its intraday bottom of 4,039 on March 19. The PSEi is the best performing market in Asia since September 30, notching a return of 22.3% in local currency terms and 22.9% in US dollar terms.

Access to vaccines will be critical

Despite pronouncements of Dr. Gottlieb and other medical experts that the epidemic may be over by next year, it may only be true for the US and Europe. Pfizer and Moderna are American companies while BioNTech is a German firm. As such, there are valid concerns that there may not be enough supply of effective vaccines for citizens around the whole world. As vaccine frontrunners move into production phase, it is imperative for the Philippine government to be able to secure contracts with countries or companies in order to provide safe and effective vaccines for Filipinos. A viable option would be procuring a vaccine through COVAX, a global movement spearheaded by the World Health Organization (WHO) which aims to provide equitable access to vaccines to all countries. Perhaps, the government can tap the help of the private sector, especially companies which have big warehouses, many branches and large logistics operations. This is a very important and encompassing endeavor for public health. Thus, a coordinated effort between the government and private sector may be able to speed up the process and yield us better results. There are still prevailing uncertainties with regards to sourcing an effective coronavirus vaccine. Nonetheless, recent developments give us optimism that a solution will eventually be found. And though risks are still present, we believe that the worst is over and the long-term direction of our stock market is up.

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