



Philequity Corner (December 7, 2020)
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Record run in global stocks

The global stock markets closed at record highs last week with the Dow, S&P and Nasdaq indices hitting all-time highs. The Dow climbed above 30,000 for the first time, finishing strongly at 30,218 last Friday. The Dow was up 1.0% for the week, the S&P rose 1.7% and the tech-heavy Nasdaq Composite 2.1%.

The MSCI All-country Weighted Index, which provides a broad measure of global equity performance, is also at fresh highs as we enter this historically favorable season for stocks.

	Index	YTD	from 52-week low	From Nov 1
US	DJIA	6%	66%	14%
US	S&P 500	14%	69%	13%
US	NASDAQ	39%	88%	14%
Vanguard FTSE Europe	VGK	1%	63%	20%
MSCI All-world index	ACWI	13%	68%	15%

A great paradox

What we are witnessing is a great paradox. Stocks are soaring higher while COVID-19 infections in many parts of the world are escalating. Many equity indices are at historic highs while unemployment is hitting unprecedented levels and the global GDP is having its largest decline on record. But the stock market is always forward looking. It is looking beyond all these problems because the coronavirus vaccine is a game changer.

A November to remember

Global stock market indices surged in November following the US elections and COVID-19 vaccine breakthroughs. Stocks rose higher as investors regard President-elect Joe Biden as less antagonistic, more predictable and rational with regards to trade and foreign policy. And most important, a drumbeat of spectacular vaccine results announced last November sent the market into euphoria (see A Great Day for Science and Humanity, Nov. 16).

Emerging market (EM) equities, which lagged US equities throughout much of the year, also marched higher. Investors are now looking at emerging markets as potential source for higher returns amid a recovering global economy in 2021.

Reopening, recovery + catch-up plays

The announcement of effective vaccines from Pfizer, Moderna and Astra-Zeneca rekindled investor's appetite for riskier assets. As a result, EM equities have rallied strongly on recovery and catch-up plays. Emerging markets that were laggards, illiquid and relatively unloved during the COVID-19 lockdowns and restrictions were the strongest performers.

In Asia, Thailand's SET index rallied the most since early November (+22%) on the back of the vaccine news and hopes for the revival of its tourism industry. Philippines is playing catch-up. Recent local developments such as the surprise BSP rate cut, the recovery in OFW remittances, tapering of local virus cases and the gradual reopening of the economy have greatly improved sentiment in the stock market. The Philippine PSE Index has now rallied +77% from its March lows.

Asia Pacific	Index	YTD	from 52-week low	From Nov 1
Thailand	SET	-8%	50%	22%
Singapore	FSSTI	-12%	28%	17%
South Korea	KOSPI	23%	87%	16%
India	SENSEX	9%	75%	13%
Indonesia	JCI	-8%	48%	13%
Philippines	PCOMP	-9%	77%	13%
Hong Kong	HSI	-5%	27%	11%
Vietnam	VNINDEX	7%	58%	11%
Malaysia	FBMKLIC	2%	34%	11%
Taiwan	TWSE	17%	64%	10%
China (SHCOMP)	SHCOMP	13%	30%	7%
Pakistan	KSE100	4%	56%	6%
China (SZCOMP)	SZCOMP	34%	48%	5%
Ishare MSCI EM ETF	EEM	13%	69%	14%
US Dollar Index	DX	-6%	0%	-4%

Lower trade-risk under Biden?

Year-to-date, the Asian EM outperformers are those that are recovering not only from the effects of COVID-19 but also from the shrinking global trade caused by the US-China trade war. China's SZCOMP (+34%), South Korea's KOSPI (+23% YTD), and Taiwan's TWSE (+17%) led the region year-to-date.

Broader rotation in 2021

The sharp rally in EM and Philippine stocks since November indicates that investors are now betting that the coronavirus vaccine will spur global economic recovery and that emerging markets are set to outperform in 2021. This appears to be part of a broader rotation theme from structural growth into reopening & recovery stocks, from defensive into cyclical, from big tech into small caps & mid-caps, and from outperforming countries into laggards.

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