



Philequity Corner (March 22, 2021)

By Wilson Sy

Lockdown – one year after

Last week, the country's coronavirus lockdown turned one year old. Financial markets were extremely volatile with asset classes moving in unprecedented ways as the world grappled with the pandemic. We enumerate the historic developments which drove market performance during our country's lockdown.

- 1. Start of Enhanced Community Quarantine (ECQ).** On March 7, 2020, the Department of Health (DoH) confirmed the first local transmission of COVID-19 in the Philippines. On March 11, the World Health Organization (WHO) declared COVID-19 a pandemic. And on March 16, President Duterte placed the entire Luzon on lockdown.
- 2. Trading suspension, and resumption via remote trading.** For the first time in history, trading in the Philippine Stock Exchange (PSE) was suspended for two days (March 17 to 18) because of the lockdown. Trading resumed on March 19 but the physical trading floor was closed. To comply with the curfew, trading hours were shortened from 9:30am to 1pm. To date, the trading floor has been reopened but only 25 out of the 88 trading booths are occupied. Many stock brokers are working on remote terminals.
- 3. PSEi touches 7,432 after bottoming at 4,039.** The PSEi was at 5,335 before the lockdown. Due to pent-up selling brought by the two-day suspension, the index plunged to an intraday low of 4,039 (down 24.3%) and closed at 4,623 (down 13.3%). This marked the biggest single-day crash of our stock market. Thereafter, the PSEi joined a global rebound in stocks and touched a high of 7,432 on January 11. The index closed at 6,436 last Friday.
- 4. Torrent of foreign selling amid growing retail participation.** Foreign investors have been net sellers every month since March 2020, with net outflows of P142b in the past year. These outflows were absorbed by domestic investors which comprised 75.5% of market volume in February 2021 from only 44.9% in March 2020. Average daily value traded rose to P11.3b for November to March, much higher than the P6.7b daily average for the first seven months of the lockdown.
- 5. Shortest US bear market in history.** From its intraday high of 3,394 on February 19, 2020, the S&P 500 fell 35.4% to an intraday bottom of 2,192 on March 23. It took 24 days for the US market to move from peak to trough, making it the shortest bear market in history.
- 6. Fastest recovery in US stocks.** The S&P 500 rose to a new all-time high in August last year, merely five months after the bottom of a savage generational bear market. Since then, the US market has continued its ascent. The S&P 500 made fresh new highs last week and is now at 3,913, 15.3% higher than its pre-pandemic peak.
- 7. Discovery of vaccines.** On November 9, Pfizer announced its discovery of a highly effective vaccine against COVID-19. Shortly after, this was followed by the vaccine announcements of Moderna and AstraZeneca. These drastically changed the complexion of financial markets, especially in the US where the pace of vaccine production and rollout is the fastest.
- 8. Peso strengthens during the pandemic.** The peso was trading at 51.50 right before the announcement of ECQ last year. Since then, the peso has appreciated and is now at 48.63. This was largely due to the weak US dollar, the tepid Philippine economy, and the rise of our country's gross international reserves (GIR) to an all-time high of \$109.1b in February 2021.
- 9. Oil's dramatic rebound after plunging below zero.** A collapse in demand, an overflow of supply, and the lack of storage facilities resulted in the precipitous nosedive of WTI oil futures to a record low of

-\$37.63/bbl in April 2020. WTI oil's spot price likewise touched an all-time low of zero. Oil has staged a strong comeback since then, with WTI spot oil currently trading at \$61.42/bbl.

- 10. Inflation picks up due to higher food and fuel prices.** Domestic inflation remained below 3% from March to October. However, inflation started to pick up in November and rose to 4.7% last month due to soaring food prices and higher global oil prices.
- 11. Local infection rate reaches new high.** Last Friday, the Philippines recorded its highest daily tally of new COVID-19 cases at 7,103. This comes after new cases were kept at around 2,000 per day from November to mid-February. Our country's reproduction rate is now above 2, up from a recent low of 0.8. Likewise, the positivity rate has climbed to an alarming level of 15%.
- 12. From Luzon-wide quarantine to granular lockdowns.** Instead of imposing another ECQ to stem the country's rising infection rate, local government units (LGUs) have resorted to granular or localized lockdowns. Longer curfew hours were reinstated across Metro Manila. In addition, government offices, have been mandated to operate at only 30-50% capacity. Capacities of restaurants and churches were likewise reduced.

Market recovery hinges on vaccine rollout

After a year of lockdown, the country is confronting a worrisome spike in cases. This may have been caused by the presence of new COVID-19 variants, and the onset of lockdown fatigue as citizens relax on their basic health protocols. We hope that the localized lockdowns implemented by LGUs would be able to slow down infection rates. However, a continued rise in new cases may prompt the government to impose a stricter form of lockdown if hospital capacity is stretched to the limit. Time and again, we have stated in our articles that the vaccine is the game-changer for financial markets. The performance of our economy and stock market ultimately hinges on the availability of vaccines, the pace of vaccinations, and the overall direction of the vaccine rollout.

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.