



Philequity Corner (May 24, 2021)
By Wilson Sy

Improving Vaccine Rollout

As of Friday's closing, the benchmark PSEi is down 13.2% YTD, making it the worst performing stock market in Asia. One of the main reasons for the drop is the perception of foreign investors that the Philippines failed to secure adequate vaccine supply and had been unable to contain COVID-19 surges. There is also a view that based on vaccination rates in the past months it will take many years to attain herd immunity. As a result, our stock market has experienced nearly unabated net foreign outflows, causing it to vastly underperform its Asian peers.

"Philippines is the laggard"

Some foreign institutions have also expressed the view that the Philippines is the laggard in Asia, which will explain the weakness of our stock market in the past months. For instance, in a forum last month, Moody's chief Asia Pacific economist Steven Cochrane had this to say:

"The lack of control of the pandemic, the inability to acquire vaccines, and the relative distance from export supply chains all factor into the outlook for the Philippines to be among the weakest in the region. There is much uncertainty about the outlook for the Philippines... and the inability to control the COVID-19 pandemic is hurting the country's GDP growth prospects."

Quarantines lower daily cases

While Moody's assessment may be shared by other institutions, we want to note that the situation has improved since then. As a result of the ECQ declaration and continued quarantines, the daily COVID-19 caseload has dropped significantly. The 7-day moving average of daily cases is down 47%, from 10,845 in mid-April to 5,781 as of last week. The reproduction rate or R^0 has also fallen below 1 in the past weeks, indicating that many of the infected no longer pass the illness to other people. Hospital capacity is no longer at critical levels. Gone are the lines of patients outside hospitals as they desperately try to get a room. While a strict quarantine has a negative impact on economic growth, it has certainly prevented many more deaths from COVID-19.

20 million and counting

With the Philippine daily COVID-19 case count steadily going down, all eyes are now on the key to this health crisis – vaccines. While lockdowns are crucial to containing a surge in COVID-19 infections, vaccines are crucial to the reopening of the economy and a return to normalcy. As we wrote in previous articles, vaccines are a gamechanger both for the economy and capital markets (see *A Great Day for Science and Humanity*, 16 November 2020). According to IATF-EID head Carlito Galvez, Jr., the Philippines will have received delivery of 20 million doses of vaccines by the end of June. In addition, more than 20M doses of other vaccines are expected in the latter half of the year. After a slow start, the government's vaccination procurement is starting to catch up.

Pace of vaccination picks up

What is also encouraging is the quickening pace of vaccinations as more supplies have arrived in the country. After a slow start, the IATF's most recent vaccine statistics bulletin show that as of May 18, the 7-day average of daily vaccinations has now reached 108,540 doses per day. Moreover, 3.3 million doses have been administered, with 786,528 individuals already fully vaccinated. With the participation of the private sector in the coming months, the pace of vaccination has room to rise as more doses arrive. As real world data indicates, vaccinations do work in reducing the spread of COVID-19, especially if coupled with other policies such as border control and social distancing.

NCR+ is COVID-19 epicenter

With the epicenter of COVID-19 cases being in NCR+, it is reasonable for bulk of the prevention and vaccination effort to be focused on NCR+ and key cities outside Metro Manila. Since NCR+ is a densely populated urban center and the seat of the economy, controlling the spread of COVID-19 in NCR+ is crucial to the reopening of the Philippine economy.

Execution is key

While fiscal stimulus in the form of *ayuda* and Bayanihan laws are important in tiding us over until the pandemic is over, mass vaccination is the real gamechanger. Vaccine orders have now become concrete and are translating into actual doses arriving in the country, with more than 40 million doses scheduled for delivery in the coming months. The pace of vaccination has also increased significantly. With the participation of the private sector, vaccination capacity will expand even more. Hopefully, this will continue to improve.

In fact, many groups now recognize that the government is doing better than initially anticipated. Clearly, execution is key. If the mass vaccination program is properly implemented, we may see sentiment shift from pessimistic to hopeful in short order. Once this happens, the stock market and economy will follow suit. More than the macroeconomic numbers, equity valuations and corporate earnings, it is the vaccine rollout that is crucial and paramount. It will be the catalyst that will turn the tide for Philippine capital markets and the economy. If the Philippine vaccine rollout is able to spring a surprise, we may see the PSEi recover its losses as it catches up with its Asian counterparts.

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.