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PHILEQUITY CORNER

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US leads bull market

Last week saw a significant surge in US stocks with record highs attained across major indices. The Nasdaq 100 index led the charge, boasting a 3.5% year-to-date increase and an impressive 66.9% surge from its 2022 low. The S&P 500 reached an all-time high last Thursday, while the Dow closed at a record high last Friday. The dominant theme for 2024 continues to be Artificial intelligence (AI), driving gains in US mega-cap tech stocks and semiconductor issues. Notably, the rally has broadened its impact, influencing other stock markets worldwide.

MAJOR STOCK MARKETS	% from 2022 Low	% YTD
US (Nasdaq 100)	66.9%	3.5%
US (Nasdaq Composite)	53.2%	3.0%
Italy	50.5%	0.1%
Japan	44.8%	6.8%
Germany	43.0%	1.3%
US (S&P 500)	40.1%	2.5%
Spain	38.2%	-1.6%
France	35.6%	1.2%
US (Dow Jones index)	33.0%	1.1%
LATIN AMERICA		
Brazil	35.4%	-3.9%
Mexico	27.7%	-0.9%

ASIA	% from 2022 Low	% YTD
Japan	44.8%	6.8%
Taiwan	42.5%	0.4%
India	38.8%	-2.1%
Vietnam	34.5%	4.0%
Philippines	17.3%	3.7%
South Korea	16.1%	-6.7%
Malaysia	9.7%	3.5%
Indonesia	9.6%	-1.9%
Hong Kong	9.3%	-6.4%
Singapore	6.4%	-2.5%
China (CSI 300)	-4.6%	-2.8%
Thailand	-9.8%	-3.4%

Source: Bloomberg

Global market highlights

In Europe, the STOXX 50 index reached its highest level in 22 years. The German DAX and French CAC40 indices hover within a percentage point of their all-time highs set last month.
Across Asia, Japan's Nikkei 225 soared to its highest point since February 1990, standing merely 5% below its all-time high set in 1989. India's BSE Sensex index and Taiwan's TAIEX are inching closer to their respective record highs.

Meanwhile in Latin America, Mexico's BMV IPC and Brazil's IBOVESPA indices are within striking distance of their all-time highs set in December.

China lags global markets

In contrast, China remains a notable underperformer in the global equities landscape. Chinese stocks in both mainland and Hong Kong experienced a substantial loss of $6 trillion over the past three years. The Hang Seng Index fell as much as 53% from its 2021 high and the CSI 300 index declined as much as 46%.

Heavy pandemic-related restrictions, sluggish economic reopening, regulatory crackdowns, and looming deflation weighed on China's economy. A slump in the property market and failures in the shadow banking system added further strain. The ongoing US-China trade war and escalating geopolitical tensions exacerbated the bearish sentiment.

China grapples with the enduring effects of a broad government crackdown on various sectors such as tech, education, entertainment, property, private equity, and venture capital (see *Radical reforms in China*, September 13, 2021). These actions support the Communist Party's goal of common prosperity, which aims to create moderate wealth for all rather than just a few (see *Common Prosperity,* August 30, 2021).

Monetary policy boost

In response to economic headwinds, the People's Bank of China (PBOC) announced a reduction in banks' reserve requirement ratio (RRR) by 50 basis points, effective February 5. This move will free up 1 trillion yuan ($140 billion) in liquidity currently held by the banks as reserves. By reducing the reserve requirement, the PBOC aims to bolster banks' capacity to extend credit and stimulate spending within the broader economy.

China's "national team" intervention

In response to the downturn in the Chinese stock market, Premier Li Qiang called for decisive measures. Policymakers are preparing to mobilize 2 trillion yuan ($280 billion), primarily sourced from the offshore accounts of Chinese state-owned enterprises, alongside an additional 300 billion yuan ($42 billion) from local funds. This move aims to establish a stabilization fund like the one deployed in 2015 to counteract the 40% decline in the Shanghai Composite Index over 2 ½ months.

Key players forming the so-called "national team" responsible for managing the stabilization fund include investment firms such as Citic Securities Finance Corp. and Central Huijin Investment, the State Administration of Foreign Exchange, the National Social Security Fund, and certain state-backed brokerages.

Stabilization fund sparks China stocks rally

The announcement of the stabilization fund and the reserve requirement cut sparked a significant rally in Chinese and Hong Kong stocks. The Hang Seng index closed last week with an impressive gain of 4.2%, marking a 7.8% increase from the week's low. Similarly, the CSI 300 index recorded a weekly uptick of 2%, representing a solid 5.1% recovery from its recent low.

All eyes on China

Investors eagerly await China's bold moves to stabilize its market. If successful, these efforts could mark a resurgence of Chinese stocks, potentially opening the door for participation in the ongoing global bull market. Moreover, the spillover effect from a recovery in China bodes well for ASEAN laggards, including Thailand and the Philippines. Philippine stocks had their best week in 2024 as China's latest stimulus measures boosted risk appetite in the region. The PSE index gained 2.8% for the week, contributing to a year-to-date return of 3.7%. Experts remain skeptical and doubtful of a China recovery, but a revitalized China could reshape regional equities in the coming months.

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