SEPTEMBER 30, 2024

PHILEQUITY CORNER

By Wilson Sy

New Philippine Bull Arrives

The Philippine stock market has roared back to life. It entered bull territory last week and signaled an end to a prolonged lackluster performance that has frustrated investors for the better part of a decade.

The Philippine Stock Exchange Index (PSEi) index closed at 7,428 last Friday, a 20.2% gain from its June lows of 6,158. This resurgence has come as a welcome relief for investors who have endured years of underwhelming returns.

The catalyst for this turnaround is the Federal Reserve's recent pivot towards monetary easing. The first rate cut by the Fed ignited the bull run in ASEAN and Philippine stock markets. This rotation and broadening into emerging markets are gaining momentum, and China's latest economic stimulus package could further amplify gains.

Breaking the 10-year sideways pattern

The PSEi is breaking out of a prolonged sideways pattern that has tested investors' patience for years. While the index has merely returned to levels seen at the start of 2015, many indicators point that this time, the breakout is sustainable.

Multiple factors aligning

Multiple factors are now aligning for Philippine equities, from global monetary easing to domestic economic tailwinds:

1) **Inflation trajectory:** Inflation is on the downward trajectory, with falling oil and agricultural prices providing significant boost to the economy. The government's decision to reduce tariffs on rice imports is expected to further reduce inflationary pressures.

2) **Federal Reserve Policy**: The Federal Reserve's jumbo 50 basis points rate cut and policy recalibration have sent stocks higher and the US dollar lower. This global monetary easing is benefiting ASEAN markets, including the Philippines, as investors rotate from US tech stocks into "old economy" and cyclical markets.

3) **Interest Rate Differential:** With the Fed cutting rates more aggressively than the Bankgo Sentral ng Pilipinas (BSP), the interest rate differential between the Philippines and the US is now widening in favor of Philippine assets.

4) **Currency strength:** The Philippine peso's weakness has reversed, with the currency now strengthening in line with other emerging market currencies. This is attracting foreign investors looking for higher yields in a weakening dollar environment.

5) **Foreign fund inflows:** Foreign funds are returning to the Philippines due to robust economic growth, attractive valuations and underweight positioning. Moderate amounts of foreign buying sent stock prices dramatically higher.

6) **Technical breakout:** The PSEi breaking 7,000, which has been a major resistance in past years, is seen as positive technical indicator supporting the bull case.

China's Easing Boost

Last week, the People's Bank of China (PBOC) introduced a comprehensive set of stimulus measures. These measures are aimed at revitalizing the Chinese economy and bringing stability to the property market. The stimulus package encompasses several key areas:

Monetary Policy: The PBOC has adjusted its monetary policy by cutting the reserve requirement ratio for banks by 50 basis points. It has also reduced key interest rates to increase liquidity in the financial system. This is expected to free up to 1 trillion yuan or $142 billion in liquidity.

Property Market Support: To bolster the real estate sector, the central bank has lowered mortgage rates by 50 basis points. Additionally, it has reduced the minimum down payment requirements for home purchases from 25% to 15%.

Fiscal Measures: The package includes fiscal policies targeting low-income households. These measures are part of a broader strategy to support economic growth and achieve the 5% government's growth target.

Capital market interventions

The PBOC also announced a stimulus package to support the capital markets. It is weighing plans for a stock stabilization fund. With an initial size of 500 billion yuan ($71 billion), it will include a swap facility allowing security firms, funds and insurance companies to tap liquidity from the central bank to purchase equities. It also plans to set up a 300 billion yuan ($43 billion) lending pool for companies to buy back their own shares. This is in addition to the buying of China's "national team," a group of state-backed entities tasked to support the market through direct purchases.

Impact on Chinese stocks & emerging markets

The response to China's biggest stimulus package since the pandemic was dramatic. China's CSI 300 surged an impressive 15.7% for the week, marking its best performance since November 2008. Hong Kong's Hang Seng index surged 13% for the week, its best showing since 1998. This is expected to result in increased liquidity in emerging market ETFs due to China's estimated 25% allocation. The stimulus is expected to have a positive spillover effect to other emerging markets, including the Philippines. The MSCI Emerging Markets ETF (symbol: EEM) was up 6.7% last week.

Nascent bull charges forward

As capital continues to rotate into emerging markets and the ASEAN region, the new Philippine bull market could see sustained gains. The recent market run-up has been fast and steep and may warrant a near-term correction. Nevertheless, the long-term outlook remains bullish. A weaker dollar, favorable financial conditions, global policy shifts, and China's latest comprehensive stimulus package are setting the stage for the PSEi to climb higher.

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.