



# PHILEQUITY CORNER

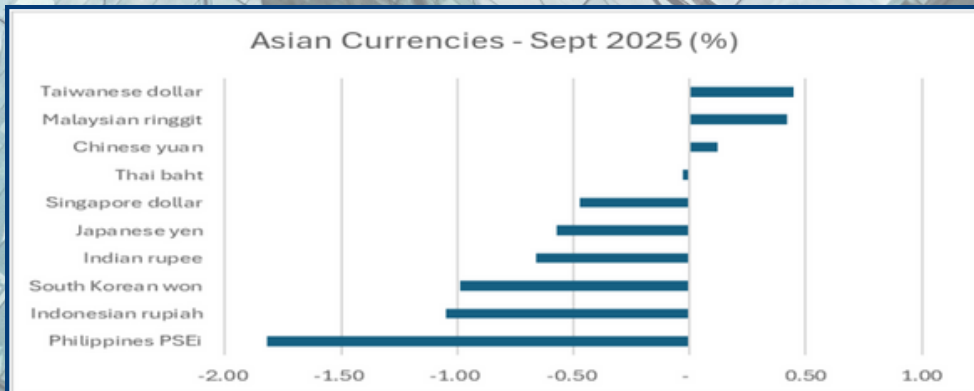
By Wilson Sy

## Graft confessions sink Philippine assets

Philippine markets suffered a punishing September as stocks, bonds and the peso logged Asia's worst performance amid escalating political turmoil and instability. Investor confidence eroded after a widening corruption probe into overpriced flood-control projects sparked the largest street protests in decades, sending shockwaves through the country's financial assets.

## Markets under pressure

The peso slumped 1.8 percent against the US dollar in September, touching a seven-week low of 58.43 per dollar on September 26. The currency ranked as Asia's worst performer for the month as investigations revealed billions of pesos in misappropriated funds.



The benchmark PSE Index plunged 3.3 percent in September, closing at 5,905.35 - its lowest level since April. The selloff left Philippine stocks dramatically underperforming regional counterparts which gained an average 3.1 percent for the month. Measured in dollar terms, the damage was even more severe: a 5 percent decline for the PSE Index versus a 6.2% gain for the MSCI Asia ex-Japan index, creating an 11.2 percentage point gap that highlights the deep divergence from broader Asian equities. The de-rating reflects the growing risk premium investors are demanding for Philippine exposure.



## Not on this scale

Key findings showed that out of PHP545 billion in flood control spending since 2022, thousands of projects were either substandard, poorly documented, or non-existent. Bangko Sentral ng Pilipinas Governor Eli Remolona admitted, "We knew there was corruption...but not on this scale." His reference to the piles of cash on a billiard table and the scope of the alleged malfeasance signals institutional concern that has rattled investors. The BSP has launched a probe into large and suspicious cash transactions possibly tied to alleged corruption network.

## Trading floors go silent

Filipinos across the country remained glued to their screens as dramatic congressional hearings unfolded daily. Televised testimonies revealed shocking images of piles of cash stacked on tables, while witnesses implicated senators and congressmen in the sprawling scheme. The proceedings brought the nation to a standstill—trading volumes plummeted as investors, like ordinary citizens, watched the explosive testimonies rather than focusing on market activity.

## Sea of white: Middle class awakens

The "Trillion Peso March" on September 21 marked Manila's largest demonstrations since the People Power Revolution. Tens of thousands wearing white shirts flooded EDSA and Luneta as typically protest-averse businessmen and professionals—accountants, doctors, lawyers, stockbrokers and teachers—joined forces with civil society groups, labor unions, priests, nuns and students. The middle-class mobilization underscored how the scandal has awakened every level of Philippine society.


## When It Rains, It Pours

A cascade of calamities magnified economic damage. Super Typhoon Ragasa exposed supposedly "completed" flood infrastructure that catastrophically failed, providing visible evidence of the fraud. The storm also devastated Northern Luzon's agricultural crops and infrastructure in late September. A 6.9 magnitude earthquake struck Bogo City, Cebu, killing 73 and injuring nearly a thousand, while collapsing buildings and cutting power across Cebu and nearby islands. Adding to the nation's woes, Taal Volcano erupted and disrupted air travel. The compounding disasters stretched government resources thin and further deepened public anger over wasted flood-control funds.

## Risks ahead

Bloomberg reported extensively on the Philippine situation, noting that credit rating agencies are watching closely, concerned that political turmoil could derail the Philippines' economic trajectory. "If we see prolonged and intensified social unrest—against a backdrop of heightened political tensions—growth could soften, and fiscal consolidation could slow as legislative attention shifts from reforms to domestic politics," said Young Kim, a Moody's Ratings analyst.

Some analysts see potential long term economic benefits arising from the current crisis. The corruption crackdown "could bring gains in the long run if it addresses governance issues," according to Pantheon Macroeconomics analysts Miguel Chanco and Meekita Gupta. "The bigger the cleanup in the short run, however painful for current activity, the better it will be for the economy's long-term prospects," they wrote.



For now, Philippine assets remain under pressure as investors await signs that institutions can restore credibility and contain the political fallout. If the probe is conducted swiftly, credibly, and evenly, Philippine assets could rally. But if it stalls, is politicized, or appears selective, expect de-rating pressure to persist.

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