Philequity Corner (April 13, 2015)
By Valentino Sy

8000

For the naysayers, doubters and non-believers, the PSE Index reaching 8,000 is proof that the bull market is alive and kicking. We have been printing shirts every time the stock market reaches a round-number milestone. Last week, our commemorative 8000 shirts came out. One of the strongest believers in our country's secular bull market is our beloved director, Mr. Washington Sycip. In fact, a year ago, just after 7,000 was reached, Uncle Wash was already asking for his 8000 shirt. He knew that it was only a matter of time before the PSE Index reached 8,000. To show how confident Uncle Wash was, a few months ago, he asked for his 8000 shirt to be in green instead of the traditional blue that we use. In the shirt, "8000" is printed in front while "Bull strong" is printed at the back.

Targets reached

In our investor briefing last year (March 8, 2014) and in a subsequent article (*7,000 in 1 year, 8,000 in 2 years,* March 10, 2014,), we set our targets for the PSE Index. We said that we expect the index to reach 7,000 in one year and 8,000 in two years. In a more recent article, we also said that our index target based on technical analysis is 7,900 to 8,100 (*Philippine Stock Market: The Outperformer,* February 9, 2015,). To the surprise of many, these levels were reached as early as March and April this year. During our 2015 investor briefing, we set our end-2015 index target at 8,433.

Reasons why the market is at 8000

We enumerate below the reasons why our stock market has reached the 8,000-milestone and is now trading above it.

1. **Secular bull market.** The Philippines is experiencing a long-term bull market on the back of structural reforms implemented across various administrations. These reforms have allowed the country to consistently deliver strong economic growth, making us one of the fastest growing countries in the world. We will no longer enumerate the reasons behind the secular bull market as we have already discussed these in previous articles (*Secular Bull Market*, January 28, 2013) and investor briefings.
2. **Accommodative monetary policy around the globe.** Following the Fed's lead, global central banks are also conducting their own brand of monetary policy easing. While the intention is to stimulate growth and inflation, these moves have also lifted asset prices globally.
3. **Appropriate monetary policy for the Philippines.** Unlike most other countries, the Philippines does not have to cut nor increase rates. Our country's monetary policy is accommodative enough to continue supporting the country's growth trajectory. There is also no pressure to raise rates as inflation continues to be manageable (*Baby Bear's Porridge – Just Right*, April 6, 2015).
4. **Global bull market.** Accommodative monetary policy around the globe has given rise to a global bull market in stocks. While the PSE Index is up 12.4% YTD, other global stock indices are also doing very well this year. China's Shanghai Composite Index is up 24.7% YTD, Europe's Stoxx 50 is up 21.2% YTD and Japan's Nikkei Index is up 14.1% YTD.
5. **Market refused to go down despite all the bad news.** This year, our stock market dealt with a fair share of bad news. President Aquino's trust rating plunged as a result of the violent Mamasapano

clash. Aside from this, consecutive overnight equity placements amounting to $945m were conducted in the early part of the year. However, instead of falling or correcting due to bad news, the market surged higher, a clear sign of underlying strength.

6. **Foreign flows surge.** Foreign flows have also contributed heavily in driving our stock market higher this year. Foreign investors are differentiating our country from the rest of the world. It seems that they have also understood the tailwinds that further enhance our country's outstanding fundamentals. As such, YTD net foreign buying has amounted to P48.4b (more than $1b).
7. **Philippines, the most resilient emerging country.** Recently, the Center for Global Development (CGD), a US-based think tank, named the Philippines as the most resilient emerging market country. In a note, CGD said that the Philippines topped 20 other emerging countries in its resilience index, which looks at indebtedness, reliance on foreign funding and ability to withstand external shocks.
8. **Philippines, the biggest winner from low oil prices.** Recently, there were a number of studies that identified the Philippines as one of the top beneficiaries of low oil prices. Since our country's GDP is primarily driven by domestic consumption, low oil prices are expected to result in higher GDP growth.

Global monetary easing

It is noteworthy that other countries such as Europe and Japan are following the Fed's lead and are conducting their own brand of quantitative easing (QE). Even China is contemplating its own stimulus program. Moreover, at least 24 countries have cut their interest rates this year. And though the Fed was able to stave-off a prolonged recession and stimulate growth, it has stressed that future policy actions will be data-driven. It has also indicated that all policy actions will be conducted in a cautious, gradual and measured manner. The Fed is aware of the effects of its policies on the US dollar that may become too strong. US dollar strength has already been affecting US exports and businesses. The Fed is thus afraid to undermine whatever fragile recovery it has achieved to date. Like the Fed, central banks all over the globe want to stimulate their economies and prevent growth from faltering and backsliding. As they exhaust their policy tools to achieve these objectives, they have also boosted asset prices higher, giving rise to a global bull market in stocks.

Follow the Fed

One of the most important investment tenets of Philequity is "don't fight the Fed." In fact, we would like to go further and say that investors should take their cue from central banks and invest accordingly. Let us not forget that central banks are very powerful institutions because they are both market participants and regulators. Hence, they can change the rules of the game, if needed, to achieve their goals and targets. We therefore advise investors to study and better understand central bank actions. We believe that one can use central bank policies and build an investment strategy around them in order to create opportunities to make money (*No More Patience*, March 23, 2015).

Philippines, the biggest winner from low oil prices

A number of studies have identified the Philippines as the biggest beneficiary of low oil prices. UBS said that it expects the Philippines to see the biggest impact on GDP, as a $10 decline in oil prices will cause GDP to rise by 0.6%. Meanwhile, Oxford Economics stated that Philippine GDP growth should go up to 7.56% if oil stays at $40 per barrel. Lastly, Finance Undersecretary Gil Beltran said that our country's import bill will be $6b lower if oil stays at $50 per barrel. This will serve to boost the country's domestic consumption, resulting in $6b of additional purchasing power for Filipino consumers. The benefits of low oil prices further enhance our country's structural growth story and highlight our outstanding fundamentals when many other countries are grappling for growth.

Quotes from 5, 6 and 7

Since our index recently closed above 8,000, many of our clients and investors have repeatedly asked us what they should do now. Our strategy now is the same since this bull market started on March 6, 2009. We reiterated this when our index reached the round-number milestones of 5,000, 6,000 and 7,000. We share these quotes below.

5000, March 5, 2012: *Our advice then and our advice now: STAY THE COURSE. In the same way that you should invest in companies with good businesses and fundamentals, you should also invest in the Philippines where the fundamentals are strong. If you stay with those whose fundamentals are intact, you will not be shaken out. And because companies grow and countries grow, those whose fundamentals are intact will not be derailed. Growth should be achievable in due time even in the face of so much external risks. So stay invested. Stay long and be long Philippines stocks.*

6000, January 14, 2013: *Through the years, our country has undergone a series of structural changes that will enable it to deliver sustained economic growth. Now that the country has shown that it can deliver high GDP growth, we share the sentiment of various credit rating agencies and some enlightened government officials that the focus will now be on sustaining GDP growth at the 5-7% level. This will not only lead to more inclusive economic growth but it will also be a crucial underpinning of a sustained bull market in Philippine stocks and Philippine assets.*

7000 April 27, 2013: *…we urged investors to stay invested in Philippine stocks because our country's fundamentals are intact. Moreover, our structural growth story is stronger and clearer compared to most developed and emerging market countries. Printed in our previous commemorative shirts were the words "Stay the Course." Now that we have reached 7,000, our advice stays the same: Stay the Course. As we have said in previous articles, we believe that exposure to Philippine stocks is a "must have" in everyone's investment portfolio. Investors should take advantage of this secular bull market by allocating a certain portion of their assets to Philippine stocks. While corrections may come at any time, we believe it is prudent, wise and judicious to always have part of one's portfolio in Philippine equities.*

5, 6, 7, 8 – Same Advice

Even as our market has reached the 8,000 milestone, the secular bull market continues to remain strong. Corrections are indeed possible given the market's strong move, but these are extremely hard to predict and are practically impossible to time even for professionals. Instead of focusing our efforts on timing the next correction, we recognize that all the elements are in place for the Philippine growth story to continue blossoming. This is helped by the fact that we are experiencing a global bull market on the back of global monetary easing. A very important power booster for our country and stock market is the big drop in oil prices. Hence, our advice as we pass this historic 8,000 mark remains the same: stay the course and stay invested in Philippine assets. Depending on one's risk appetite, allocate a certain portion of your assets in a diversified portfolio of Philippine stocks. **Invest and be a part of one of the strongest and longest bull markets in history.**

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) 689-8080 or email ask@philequity.net.