Philequity Corner (September 28, 2015)
By Valentino Sy

Throwing the Baby Out With the Bath Water

Some of our readers are wondering why the peso and the PSE Index have gone down when our economy benefits from low oil and commodity prices. Our economy is mainly driven by domestic consumption and should therefore be the least affected by global weakness. However, as we are seeing now, our economy, currency and stock market are not totally immune from the global economic slowdown.

Global growth downgrades

The global slowdown becomes more apparent when we see downgrades of GDP growth estimates for the global economy. In June, the World Bank downgraded its forecast for 2015 global growth to 2.8% from 3.0%. In July, the International Monetary Fund (IMF) also lowered its 2015 global growth forecast to 3.3% from 3.5%.

China's growth downgraded below 7%

The Asian Development Bank (ADB) recently reduced its 2015 growth estimate for China to 6.8% from 7.2% previously. Moreover, Goldman Sachs downgraded its 2015 growth forecast for China to 6.4% from 6.7%. A slowdown in China greatly affects many emerging market countries.

Philippine GDP growth also downgraded

While the Philippine economy is expected to perform strongly amidst a slowing global economy, it has not been immune from the spate of GDP growth downgrades that the globe has experienced. Recently, Standard & Poor's (S&P) reduced its 2015 growth forecast for the Philippines to 5.6% from an earlier projection of 6.0%. Moody's Investor Service (Moody's) likewise scaled down its 2015 growth forecast for the Philippines to 5.7% from its previous target of 6.0%. Moreover, there are several multinational banks that downgraded their growth estimates for our country. These downgrades reflect the view that the Philippine economy will inevitably be affected by the global slowdown even if it is expected to fare better than its peers.

Philippine peso, one of the best performing currencies

Since the US already ended its quantitative easing (QE) program and is contemplating a rate hike, the US dollar has performed strongly against most currencies. This is exacerbated by the global slowdown, which has resulted in the sharp depreciation of the currencies of the most affected countries. In the table below, we show the performance of various currencies vs. the US dollar from their post-2008 peak up to September 25, 2015 (peak-to-date or PTD), as well as their year-to-date performance (YTD).

Table 1 – Performance of global currencies

Country	Currency	PTD	YTD
Hong Kong	Hong Kong Dollar	0.0%	0.0%
China	Chinese Yuan	-5.5%	-2.7%
UK	British Pound	-13.1%	-2.6%
Philippines	**Philippine Peso**	**-15.3%**	**-4.6%**
Taiwan	New Taiwan Dollar	-15.8%	-4.4%
South Korea	Korean Won	-18.4%	-9.5%
Singapore	Singaporean Dollar	-18.7%	-7.5%
Thailand	Thai Baht	-26.2%	-9.9%
Peru	Peruvian New Sol	-27.0%	-8.2%
Vietnam	Vietnamese Dong	-28.8%	-5.2%
Pakistan	Pakistani Rupee	-33.6%	-3.9%
Europe	Euro	-35.1%	-8.0%
Switzerland	Swiss Franc	-38.2%	1.5%
Canada	Canadian Dollar	-41.4%	-14.8%
Egypt	Egyptian Pound	-44.5%	-9.5%
Nigeria	Nigerian Naira	-45.9%	-8.6%
Mexico	Mexican Peso	-47.6%	-15.1%
Malaysia	Malaysian Ringgit	-49.2%	-25.4%
India	Indian Rupee	-50.1%	-4.9%
Chile	Chilean Peso	-53.7%	-15.7%
Australia	Australian Dollar	-56.8%	-16.3%
Japan	Japanese Yen	-59.0%	-0.7%
Norway	Norwegian Krone	-62.9%	-14.0%
Indonesia	Indonesian Rupiah	-73.6%	-18.6%
Colombo	Colombian Peso	-75.8%	-29.3%
South Africa	South African Rand	-111.8%	-20.3%
Turkey	Turkish Lira	-118.4%	-30.5%
Russia	Russian Ruble	-139.8%	-7.7%
Brazil	Brazilian Real	-158.3%	-49.6%

Sources: Bloomberg, Investing.com, Wealth Research

Those who have been concerned about the slide of the peso might be surprised with this table. **In the table above, we show that the peso is actually among the strongest currencies in the world. The peso is one of the currencies which depreciated the least from its recent peak.** The drop of the peso is really the result of the surging US dollar (see Chapter 7 of our book, *Opportunity of a Lifetime*).

PSE Index, middle of the pack

In the table below, we show how the PSE Index and other global stock indices have performed. While the peso has been one of the strongest currencies in the world, the PSE Index is in the middle of the pack compared to its peers in terms of PTD. **Also, as seen in the table below, the YTD loss of the PSE Index is less severe than many of the other countries.**

Table 2 – Performance of Global Stock Indices

Country	Index Ticker	PTD	YTD
Mexico	MEXBOL	-8.5%	-1.6%
South Africa	JALSH	-8.8%	1.1%
Pakistan	KSE100	-9.4%	2.2%
Switzerland	SMI	-10.7%	-5.3%
Vietnam	VNINDEX	-11.0%	4.5%
Russia	INDEXCF	-11.8%	17.4%
Norway	OSEBX	-12.3%	0.7%
South Korea	KOSPI	-12.8%	1.4%
India	SENSEX	-12.9%	-5.9%
United Kingdom	UKX	-14.0%	-7.0%
Japan	NKY	-14.3%	2.5%
Canada	SPTSX	-14.6%	-8.6%
Malaysia	FBMKLCI	-14.7%	-8.3%
Philippines	**PCOMP**	**-14.9%**	**-4.3%**
Australia	AS51	-15.7%	-6.8%
Thailand	SET	-16.2%	-8.1%
Taiwan	TWSE	-18.5%	-12.6%
Europe	SX5E	-18.7%	-1.1%
Turkey	XU100	-19.9%	-13.0%
Singapore	FSSTI	-20.0%	-15.8%
Chile	IGPA	-22.4%	-3.5%
Indonesia	JCI	-23.8%	-19.5%
Hong Kong	HSI	-25.5%	-10.2%
Egypt	CASE	-26.9%	-17.7%
Nigeria	NGSEINDX	-29.0%	-11.9%
Colombia	COLCAP	-37.4%	-19.7%
Brazil	IBOV	-38.6%	-10.4%
China	SHCOMP	-40.1%	-4.4%
Peru	IGBVL	-58.5%	-32.5%

Sources: Bloomberg, Investing.com, Wealth Research

Philippine exposure in Emerging Market ETFs

Economically, the Philippines is categorized as an emerging country and is part of emerging markets (EM). Geographically, it is a part of Asia, where several EM countries are also located. Philippine stocks are thus included in many ETFs that invest in EM countries. Thus, when these ETFs are sold down, Philippine stocks are inevitably sold down as well. **Based on data that we have gathered, there are 84 documented ETFs that hold exposure to Philippine stocks, with total holdings amounting to $2.1b.** In the table below, we show the top 10 ETFs in terms of amount of exposure to Philippine equities.

Table 3 – ETFs with the biggest exposure to Philippine stocks

ETF Name	Ticker	AUM	Weight	Phil. AUM
Vanguard FTSE Emerging Markets ETF	VWO	37,470.0	1.98%	741.9
iShares MSCI Emerging Markets ETF	EEM	21,680.0	1.48%	320.9
iShares Core MSCI Emerging Markets ETF	IEMG	7,330.0	1.48%	108.5
iShares MSCI Emerging Markets Minimum Volatility ETF	EEMV	2,560.0	4.10%	105.0
SPDR Dow Jones International Real Estate	RWX	4,790.0	2.16%	103.5
iShares MSCI All Country Asia ex Japan	AAXJ	2,740.0	1.73%	47.4
Vanguard FTSE All-World ex-US	VEU	13,190.0	0.35%	46.2
Vanguard Global ex-U.S. Real Estate	VNQI	2,980.0	1.51%	45.0
PowerShares DWA Emerging Markets Momentum	PIE	206.1	13.59%	28.0
Schwab Emerging Markets Equity	SCHE	1,340	1.95%	26.1

Amounts in million dollars

Sources: etf.com, etfdb.com

The Baby and the Bath Water

The table above answers the question as to why the Philippine peso and stock market are dropping despite our country's superior fundamentals. When global, EM or Asian ETFs are sold down, they are mandated to automatically reduce their Philippine equity exposure. Consequently, Philippine stocks are also sold down. As the title of our article suggests, this is a case when something good is indiscriminately thrown away with the bad things that it is associated with. The slowdown in China has caused the recent meltdown in EM stocks and currencies and has therefore dragged the performance of the peso and the PSE Index (*Best House in a Sliding Neighborhood*, September 14, 2015). Nonetheless, we continue to see the Philippines as the 'best house in a bad neighborhood', and there are some that share this view. Last week, HSBC came out with a report, describing the Philippine economy as "a bright star in a dim sky."

Differentiated but not de-coupled

Since our country is not a commodity producer and is not heavily dependent on exports, we should be less affected by the various threats to global growth. However, the peso and the Philippine stock market were inevitably dragged down by the poor performance of our peers. Though our country is different and our economy is much stronger than our neighbors, our currency and stock market cannot go against the tide of turbulence that we are now witnessing. As such, we continue to look for signs that our market is de-coupling as we wait for things to stabilize on the global front and for the indiscriminate selling to abate.

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