Philequity Corner (June 12, 2017)
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Synchronized global growth

Despite negative political news globally, the Dow reached another all-time high last Friday. Likewise, most stock markets in the world are either trading near multi-year highs or are moving in a strong uptrend. Meanwhile, the PSEi again touched the significant 8,000-point milestone and closed at 7,990 last week. Many of our readers and investors are wondering why global equities are touching new highs despite the prevalence of negative news headlines. In this article, we explain how the synchronized global economic growth has resulted in the ongoing global bull market in stocks.

Coordinated central bank action leads to broad-based global growth

In the aftermath of the 2008 global financial crisis, the Fed under former Chair Ben Bernanke engaged in unprecedented monetary stimulus to prevent a protracted recession and stimulate an economic recovery. Eventually, other major central banks such as the ECB, BOJ and PBOC followed the Fed's lead by coming up with their own stimulus programs to buoy their respective economies (*The Great Global Monetary Easing*, October 22, 2012). Initially, the recovery was led by the US economy even as growth prospects for other countries were weighed by various risks (i.e. sovereign debt crisis in Europe, deflation in Japan, hard landing in China). Recently, however, it appears that global growth has a broader base, as seen in the improving economic performance of many countries.

Synchronized growth around the globe

Below, we enumerate the various indicators and catalysts that support the synchronized global economic growth that we are currently witnessing.

1. **Simultaneous growth of many different countries.** Before, the US economy was performing well but the economies of other countries stumbled. Though still not robust, the economies of Europe, China and Japan have recently delivered improving economic growth, thereby joining the US as the major drivers of global growth.
2. **Manufacturing activity is improving.** Another economic indicator that supports synchronized global growth is the broad-based pickup in manufacturing activity. This is seen in the purchasing manager's index (PMI) of major countries. The PMI of the US, Europe, Japan and China are all in positive territory and have shown sustained improvements in the past year or so.
3. **Pickup in global trade.** Even with various political and geopolitical risks, global trade is expected to grow at a rate of 2.4% this year compared to 1.3% in 2016. This should be supported by stronger trade flows in China. Last week, China's trade data showed that imports and exports both came above forecasts due to the brighter outlook for global trade and the improving economies of its major export destinations, such as the US and Europe.
4. **Corporate profits head higher across most industries and markets.** Given the gradual pickup in economic activity, manufacturing and global trade, corporate profits have also started to show sustained growth and improving prospects across various industries and geographic locations.

5. **Crude oil prices have remained low.** Despite OPEC initiated supply cuts and tensions between Saudi and Qatar, oil prices have stayed at historically low levels primarily due to US shale oil production. The improving production and technology of US shale operations should keep oil prices in check over the medium term.
6. **Inflation remains manageable.** In many countries, inflation has picked-up and has stayed in positive territory due to the great global monetary easing. Yet, inflation has generally been manageable so far, thus giving central banks more policy leeway.
7. **Monetary policy remains accommodative, helping growth and equities.** Though growth and inflation have both been positive for many countries, global growth remains historically low while the pickup in inflation has been relatively slow. This environment has allowed the Fed and other global central banks to maintain an accommodative policy stance even as they start to wind up stimulus programs and normalize monetary policy settings. This should result in a firmer growth trajectory for the global economy while also supporting the global bull run in stocks.
8. **Fiscal stimulus to complement easy monetary policy.** The central banks have done their job in combating deflation and stabilizing the global economy. Now, the focus is on the governments of various countries to come up with fiscal stimulus programs to support the next leg of the economic recovery. An example of this is Trump's pro-growth agenda, which aims to implement tax reform and engage in massive infrastructure spending (*The Trump Card*, December 12, 2016).

These factors that we enumerated above have led to the ongoing global bull market in stocks.

Philippine macroeconomic numbers show underlying strength

While the global economy is experiencing synchronized growth, the Philippines is not to be outdone. In fact, we are growing faster than most other countries in the world. Our economy benefits from the current macro environment which is characterized by slow but solid global growth, low oil prices, low inflation and accommodative monetary policy (*Not too hot, not too cold*, June 20, 2016). On top of this, our country has a compelling structural growth story, which can be seen in our strong economic performance, as measured by various economic indicators. Our country's GDP grew at a rate of 6.4% in 1Q17, one of the fastest in Asia. Meanwhile, manufacturing PMI came in at 54.3 in May vs. 53.3 in April. In addition, the BSP's Department of Economic Statistics stated that the consumer confidence index hit an all-time high of 13.1% in 2Q17 from 8.7% in 1Q17. Moreover, net FDI inflows continue to be robust, growing at double-digits for the first two months of the year.

PSEi touches 8,000 despite negative headlines

In the last few weeks, the country has dealt with a wave of negative events and news headlines. Martial law was declared in Mindanao amid the ongoing battle between government forces and Muslim rebels in Marawi. There is also the tragic incident which transpired in Resorts World Manila. And last week, BPI encountered an IT-related problem which caused a mess in the account balances of its depositors.

Despite all these, the PSEi has stayed near the 8,000 resistance level due to the robust performance of global markets and our country's strong fundamentals. Investors are looking at the next growth catalysts for our economy, such as the impending passage of the tax reform package (*Stock market cheers tax reform passage by House*, June 5, 2017), which should pave the way for the ramp-up in infrastructure spending (*Build, build, build*!, April 24, 2017).

Economics vs. politics

Like the Philippines, the world has also been barraged by a spate of negative headlines. There are talks of a potential impeachment for Trump which may arise from the testimony of former FBI Director James Comey (*Politics vs. Economics*, May 22, 2017). Aside from this, the outcome of the UK election has resulted in a hung parliament, thus clouding Brexit negotiations with the EU. There is also an ongoing feud between Saudi and Qatar, which may complicate the volatile geopolitical environment in the Middle East. Lastly, there have been multiple terrorist attacks around the world, which may then dent tourism prospects and cause knee-jerk corrections in the stock market.

Against this backdrop, the Dow reached a new all-time high last Friday while many other global indices are making new highs. This move is underpinned by the broad-based improvement in fundamentals that is currently unfolding. While noise and headlines can be distractions, the global economy's synchronized growth is ongoing and is the sparkplug for the global bull run in stocks.

8,000 level – a crossroad for the PSEi

Now that the index is at the 8,000-point level again, many might be wondering where the PSEi will go from here. Will the index breakout and establish a new all-time high? Or will the PSEi experience a pullback? Is the potential correction going to be deep or shallow? Time and again, we have said that corrections are part and parcel of a bull market, though the duration and magnitude of pullbacks are extremely hard to predict. Nonetheless, we remain confident that the resistance level of 8,000 and the previous all-time high of 8,137 will eventually be broken due to the underlying strength of global and local fundamentals. **The synchronized global economic growth is driving global stock markets higher despite political noise and various negative headlines.** Meanwhile, our country's growth story is intact and should further be enhanced by the passage of the tax reform package and the much-anticipated ramp-up of infrastructure spending. Though corrections may happen along the way, our advise to investors remains the same: ignore the noise, stay the course and remain invested in Philippine stocks.

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.