Philequity Corner (May 20, 2013)
By Valentino Sy

Beggar Thy Neighbor

In our previous articles, we talked about the unprecedented policies of Fed Chairman Ben Bernanke (*The Rescue,* September 22, 2008 and *The Twist*, September 26, 2011). We also talked about how Bernanke's policies were followed by the equally bold moves of European Central Bank (ECB) President Mario Draghi (*Whatever It Takes*, August 27, 2012) and Bank of Japan (BOJ) Governor Haruhiko Kuroda (*Out of the Sandtrap*, April 15, 2013). All in all, what we have been seeing is a coordinated effort from global central banks to provide access to credit, lift asset prices and stimulate their respective economies (*Central Banks Winning*, September 17, 2012 and *The Great Global Monetary Easing*, October 22, 2012).

However, since the wave of global central bank action started, there has been a lot of debate about the ethics and effectiveness of these policies. There are analysts and economists who say that these actions are actually "beggar thy neighbor" policies. In Filipino, the phrase literally means "gawing pulubi ang iyong kapitbahay." In their opinion, these policies are tantamount to competitive devaluation, which aims to improve a country's economic performance at the expense of its neighbors and trading partners.

Currency Wars

In a past article, we talked about competitive devaluation and currency wars (*Currency Wars*, October 11, 2010). Competitive devaluation refers to the direct and explicit weakening of a country's currency in order to gain some form of competitive advantage. A weaker currency lowers the price of that country's exports and raises the price of its imports. In effect, it spurs export production, which results to rising employment and economic activity. However, it also reduces imports at the expense of that country's neighbors and trading partners.

Currency wars ensue when other countries respond to a country's competitive devaluation. This, in effect, results to a zero or negative sum scenario, as the economic benefits of one country are gained only at the expense of others.

Enrich Thy Neighbor

In a speech that he made at the London School of Economics, Bernanke explained the reason behind his actions. He said that his policies aim to stimulate the growth of domestic aggregate demand. Although a weaker dollar was one of the initial effects of his policy moves, using a weak currency as a competitive advantage was not his objective. His actions seek to improve credit conditions and revive the housing sector in order to stimulate economic growth.

Moreover, Bernanke explained that if monetary policies work, then the economies of developed countries will grow faster. This would then lead to stronger global demand, which would improve the export prospects of emerging countries. The end result is a positive sum scenario that is better for most countries. Instead of “beggar thy neighbor,” Bernanke believes that his policies will actually enrich his country’s neighbors and trading partners.

Purisima Thinks Like Bernanke

Bernanke’s enlightened opinion was recently echoed by Department of Finance (DOF) Secretary Cesar Purisima. Mr. Purisima recently said that the depreciation of the Japanese yen does not hurt the Philippines. He also said that a healthier Japan is actually better for the country. As we have stated in the past, Japan is a major trading partner of the Philippines. Japan is not only a major source of our country’s imports but is also a major destination of Philippine exports.

Print or Die

In past articles and presentations, we used 10 keywords to explain to our readers and investors what happened in the past and why we are experiencing this historic bull market (*10 Keywords*, March 18, 2013). The twin crises – the US subprime mortgage crisis and the European sovereign debt crisis – were triggered by the implosion of toxic assets amidst very high leverage levels. These crises prompted global central banks to use extraordinary measures to fight deflation and revive their economies.

Lucky to Have Bernanke

The world is fortunate that Bernanke was at the helm when all these happened. Some of Bernanke’s main studies as an academic focused on the US Great Depression and Japan’s Lost Decades. To turn the tide and prevent another Great Depression from happening, Bernanke did everything in his power to provide credit and prevent a titanic collapse of the global financial system.

More Than 500 Interest Rate Cuts

Although there are risks posed by extreme monetary policy easing, it seems that Bernanke’s policies are starting to yield tangible positive effects. This is also why global central banks are following suit. Note that since June 2007, there have been more than 500 interest rate cuts initiated by central banks all over the world. Moreover, because of the interest rate cuts in developed countries, other countries like the Philippines have also responded with own their interest rate cuts in order to stem hot money inflows and prevent their currencies from appreciating too much.

Forced Into Stocks

Because of the coordinated action of global central banks, global macroeconomic headwinds have largely dissipated. Global growth has also been gaining traction although it has been relatively slow. As such, there has been no sign of high inflation, at least for now. Given this scenario, central banks can continue easing until growth and inflation start picking up. We believe that this unique situation ultimately benefits global equities. Below, we explain how other asset classes are faring in this type of environment.

1. Because of the global monetary policy easing, interest rates and bond yields have hit all-time lows, making deposits and bonds unattractive.

2. Since global growth has been subdued, the prices of soft commodities and industrial metals have significantly decreased.
3. An improving global macro picture, low inflation, a stronger dollar and a global bull market in stocks are putting pressure on the prices of precious metals such as gold (*Gold Meltdown*, April 22, 2013).

Considering these, we believe that we are in a sweet spot for global equities. Because of this prevailing peculiar situation, there has been no alternative for investors. Instead, they are forced into buying stocks, fueling this global bull market in equities. And although we do not know for sure if the great global monetary easing will actually result to sustainable global economic growth, we are certain of one thing: there is money to be made in stocks now.

Global Bull Market

As a result of the global easing of central banks, we are experiencing a global bull market (*Global Bull Market*, January 7, 2013). In the tables below, we show that there are many global stock indices that are trading at or near all-time or multi-year highs.

Major Markets			
Index	**Country**	**2013 YTD**	**Remarks**
S&P 500	US	16.9%	All-Time High
FTSE 100	UK	14.0%	5-Year High
DAX	Germany	10.3%	All-Time High
Asian Markets			
Index	**Country**	**YTD**	**Remarks**
Nikkei 225	Japan	45.6%	5-Year High
PSE Index	**Philippines**	**25.2%**	**All-Time High**
JCI	Indonesia	19.2%	All-Time High
SET	Thailand	17.0%	19-Year High
Strait Times	Singapore	8.9%	5-Year High
KLCI	Malaysia	4.7%	All-Time High

Sources: Bloomberg, Wealth Securities

A Winner Among Winners

Our country is very fortunate to have enlightened leaders at the helm. They come up with the appropriate fiscal and monetary policies in this challenging environment. This has allowed our country to grow faster when most countries are experiencing growth challenges. This is why investors are becoming more interested with our country. This is reinforced by the investment grade rating that we received from 2 out of the 3 major credit rating agencies in the span of 2 months (*Investment Grade*, April 1, 2013 and *The 2nd Upgrade*, May 6, 2013). These explain why we are one of the best performing stock markets in the world at a time when most global stock markets are also doing very well.

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