Philequity Corner (June 1, 2015)
By Valentino Sy

Disappointment

The much awaited GDP growth result for the first quarter of 2015 turned out to be a big disappointment. With that big miss, the stock market suffered one of the biggest one-day losses this year, falling 130 points or 1.7%.

Blindsided

Note that GDP expectations were very bullish, with consensus forecasting growth of 6.6%. Moody's even came out with a bold prediction that the Philippine economy would grow a whopping 7.3% in the first 3 months of the year. Thus, when 1Q15 GDP growth came in at 5.2%, the lowest in 3 years, practically every economist was blindsided, with consensus missing the mark by 1.4%, a very large margin.

Unmet expectations

What compounded the disappointment were the high and unmet expectations of our country's GDP growth. In the recent past, investors were already jumping for joy with 5-6% growth. Now, investors are expecting growth rates of 6-7% instead. What a change in expectations!

Knee jerk reaction

Thus, when the GDP results came in at 10AM, the knee jerk reaction was to sell everything in sight. With the stock market going into panic mode, prospective buyers took the time to pause and review their outlook before making any purchases.

MSCI rebalancing

What exacerbated the selloff was the panic selling coinciding with MSCI rebalancing. Many index stocks had their weighting reduced and were sold in order to make way for the entry of GTCAP into the MSCI Philippines index. Likewise, some notable mid cap stocks were sold down for the inclusion of SSI, PLC and WEB in the MSCI Small Cap index. The PSEi shed 97 points from its intraday high last Friday as large market on close orders were executed by foreign funds, with total value turnover at PhP 22.5 billion in just one day.

Missed opportunity

As soon as GDP figures were released, economists and analysts pored over the numbers in order to understand the reason behind this big miss. In fact, NEDA Director-General Arsenio Balisacan said that the first quarter output was lower than what the government and market expected, calling it a "missed opportunity." The underperformance in GDP was due to 2 main factors – the slower than expected pace in government spending and the drop in net exports, resulting in a trade deficit.

With many analysts expecting GDP to shine given the low oil price environment, the 1st quarter was indeed a missed opportunity.

Solid foundation

However, it was not a total loss if we examine the rest of the GDP figures. Domestic consumption continues to grow, while there was a notable 10% increase in real investments, which points to increasing capital expenditures. Thus, despite weakness in the global economy, our country has remained resilient because of robust domestic spending. Unlike other export-driven countries, the foundation of our country's growth is more stable.

Moving forward

Last month, the Department of Budget and Management (DBM) said that it had released more than 90% of the 2015 budget. Thus, we can expect a pick-up in government spending in the coming quarters. BSP Governor Amando Tentangco, Jr. made the same observation saying that while" economic growth in the first quarter of 2015 was modest, **there are developments on the ground that should boost economic performance moving forward**."

Opportunity in disappointment

The announcement of the disappointing GDP figure caused the market to fall as low as 7,468. From a technical analysis viewpoint, the 7,400 level is a strong support and the PSEi may have hit a bottom at this level. While the stock market's drop was quite scary, its bounce from support with a 1% gain last Friday despite large foreign selling is a positive sign. Moreover, as BSP Governor Tetangco said, there are developments that should boost economic performance moving forward. This statement of BSP Governor Tetangco makes us believe that this disappointment may present a buying opportunity. Similarly, the day after the GDP shocker, a few major foreign brokerage houses and research firms came out with reports calling the drop an opportunity to buy Philippine stocks.

Stick to fundamentals

No matter how strong one's conviction is in the Philippines' growth prospects, the sharp decline in stock prices after the GDP announcement has shaken the confidence of many investors. It is important to note that while practically no stock was spared from the selling onslaught last week, many stocks have already started to rebound. To avoid being shaken out during corrections, one should stick to companies with solid fundamentals and outstanding growth prospects moving forward. It is precisely the certainty in a company's long term trajectory that should give an investor confidence not only to hold on to his stocks, but also buy more when the stock price falls.

Unmistakable positive trajectory

The same is true when investing in countries, such as the Philippines. Just like a stock with solid fundamentals and growth prospects, the Philippines can be judged based on the same qualities and clearly, it is worth holding on to. Unfortunately, because of the high expectations for 1Q15 GDP growth, there was a lot of disappointment in the markets, especially from foreign funds. That said, slow but sure growth is better than a volatile and cyclical growth spurts. We share the bullish view of Finance Secretary Cesar Purisima when he issued the following statement:

"Numbers fluctuate each quarter but they clearly show **an unmistakable positive trajectory**. We are **less concerned about the quarterly numbers game than getting the foundations of our growth right**."

With our country on this unmistakable positive trajectory, this sharp drop in the stock market provides an opportunity for long term investors to be part of the Philippines' exceptional growth story as it unfolds.

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.