



Philequity Corner (January 2, 2017)

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2016 Scorecard

2016 was an eventful and tumultuous year for financial markets as asset prices swung from one extreme to another. Here are our top 10 events that rocked the year (marked in no particular order):

1. Chinese yuan shock in January leading to a large depreciation in EM currencies and fears of contagion.
2. The January rout in global stocks leading to the worst start to a trading year.
3. The collapse of oil prices to 14-year low of \$25 per barrel sowing fears of deflation and global recession.
4. Saudi Arabia and its Gulf allies together with non-OPEC members agreed to cut oil production in November, keeping oil prices above \$50 per barrel to end the year.
5. NIRP – interest rates went topsy-turvy after Japan and Germany joined Denmark, Sweden and Switzerland in issuing 10-year bonds with negative yields. Negative yielding debt reached as much as \$13.4 trillion in August.
6. Duterte’s victory and the “groundswell phenomenon”
7. Trump underdog victory in the US elections
8. Brexit and the rise of populism. Strong anti-establishment sentiments led to Brexit, the Italian referendum, the resignations of UK PM David Cameron and Italian PM Matteo Renzi and the elections of Duterte and Trump.
9. The anticipation of the Fed rate hike throughout most of the year created more volatility than the actual Fed hike itself. The Fed eventually raised its key rate by 25 basis points in December.
10. Trump’s reflationary policies sends US stocks to record levels and the US dollar to 14-year highs.

Stocks: Worst start ever ends on a high note for US & most developed markets

Despite the volatility and the worst ever start to a trading year, most developed stock markets proved to be resilient in 2016. DM stocks overcame the collapse in oil prices, Brexit, fears of a Trump victory and the much ballyhooed Fed hike. Today, the US markets are at all-time highs with the Dow just 38 points shy of 20,000. Expectations of a US-led reflation and fiscal expansion under Trump drove a rotation into US equities, leading the way for a recovery in most developed markets.

Major stock markets

Among developed markets, the US led the way with the broader Russell 2000 index gaining 19.5 percent year-to-date and 13.6 percent since Trump. Strong performances also came from Canada, UK and Australia. All the major markets have recovered sharply from their early sell-offs, rebounding 20 - 30 percent from their year-lows to finish the year in green.

Major Indices	Ticker	Low-to-date	Trump-to-date	Year-to-date
US	RTY	42.3%	13.6%	19.5%
Canada	SPTSX	29.5%	4.6%	17.9%
UK	UKX	29.0%	4.4%	14.4%
US	INDU	26.2%	7.8%	13.4%
US	SPX	22.4%	4.6%	9.5%
US	CCMP	26.2%	3.7%	7.5%
Australia	AS51	18.9%	7.8%	7.0%
Germany	DAX	31.2%	9.5%	6.9%
France	CAC	24.8%	8.6%	4.9%
Japan	NKY	27.8%	11.3%	0.4%

Source: Bloomberg, Wealth Securities Research

Emerging stock markets

Emerging stock markets were led by Pakistan, Brazil and Russia. Pakistan stocks closed the year at record highs and are up 42 percent year-to-date. Brazil stocks recovered from last year's poor performance, up 32.1 percent after President Dilma Rouseff was impeached. Meanwhile, Russian stocks are up 24.2 percent thanks to the recovery in crude oil prices and to Trump.

Philippine stocks declined slightly by 1.6 percent in 2016. The Philippines is the 3rd worst performing stock market in Asia this year after China and Malaysia.

Asia & select EM indices	Ticker	Low-to-date	Trump-to-date	Year-to-date
Pakistan	KSE100	56.4%	13.5%	45.7%
Brazil	IBOV	60.6%	-6.1%	38.9%
Russia	INDEXCF	38.8%	13.5%	26.8%
Thailand	SET	26.0%	2.2%	19.8%
Indonesia	JCI	20.0%	-3.2%	15.3%
Vietnam	VNINDEX	27.4%	-1.7%	14.8%
Taiwan	TWSE	20.7%	0.4%	11.0%
Mexico	MEXBOL	13.4%	-5.8%	6.2%
South Korea	KOSPI	10.4%	1.2%	3.3%
India	SENSEX	16.0%	-3.5%	1.9%
Hong Kong	HSI	20.1%	-4.0%	0.4%
Singapore	FSSTI	13.7%	2.1%	-0.1%
Philippines	PCOMP	12.4%	-6.4%	-1.6%
Malaysia	FBMKLCI	2.5%	-1.3%	-3.0%
China	SHCOMP	16.9%	-1.4%	-12.3%

Source: Bloomberg, Wealth Securities Research

Currencies: Dollar remains king

The 3.6 percent gain of the US dollar index (DXY) this year belies the turbulence of currency moves in 2016. The DXY started the year strong with a weak Chinese yuan threatening an EM currency contagion back in January. It then swung the other direction after the Fed paused its scheduled rate hike, declining as much as 8 percent by May 2016. The DXY then rallied back 10 percent to end the year at 14-year highs.

Major currencies

The performance of major currencies were a mixed bag. After riding wild swings in both directions, the Canadian dollar and Japanese yen came up with slight gains for the year. The Aussie dollar, Swiss franc and the Euro ended the year with slim losses against the greenback. Meanwhile, the British pound was the outlier, suffering a 16.8 percent depreciation against the US dollar, especially after the Brexit vote.

Major Currencies	Current Price	Peak-to-date	Trump-to-date	Year-to-date
US Dollar Index	DXY	-1.0%	4.4%	3.6%
Canadian Dollar	CAD	-7.3%	-1.2%	2.9%
Japanese Yen	JPY	-17.1%	-11.2%	2.7%
Australian Dollar	AUD	-7.7%	-7.1%	-1.1%
Swiss Franc	CHF	-6.9%	-4.2%	-1.7%
Euro	EUR	-8.8%	-4.6%	-3.2%
British Pound	GBP	-17.1%	-0.4%	-16.8%

Source: Bloomberg, Wealth Securities Research

Emerging market currencies

The performance of emerging market currencies varied wildly. On one end, commodity-based currencies such as the Brazilian real, the Russian ruble and the South African rand were up double digits this year after the prices of crude oil and other commodities rallied.

On the other end, we have the Mexican peso suffering a 20.5 percent depreciation against the US dollar. It finished the year at record lows upon Trump's victory and concerns over trade and the possible overhaul of NAFTA.

The Philippine peso finished 2016 weaker by 5.7 percent. Year-to-date, the peso is the 2nd worst performing currency in Asia after the Chinese yuan which depreciated by 6.9 percent.

Asia & Select EM currencies	Current Price	Peak-to-date	Trump-to-date	Year-to-date
Brazilian Real	BRL	-4.6%	-2.7%	17.8%
Russian Ruble	RUB	-2.2%	3.6%	15.1%
South African Rand	ZAR	-4.2%	-4.2%	11.2%
Indonesian Rupiah	IDR	-4.0%	-3.0%	2.3%
Taiwanese Dollar	TWD	-3.8%	-2.8%	1.6%
Thai Baht	THB	-3.7%	-2.6%	0.5%
Singaporean Dollar	SGD	-8.2%	-4.4%	-2.0%
Indian Rupee	INR	-2.3%	-1.6%	-2.3%
Korean Won	KRW	-10.6%	-6.3%	-2.6%
Malaysian Ringgit	MYR	-16.0%	-6.8%	-4.5%
Philippine Peso	PHP	-7.9%	-1.9%	-5.7%
Chinese Yuan	CNY	-7.6%	-2.3%	-6.9%
Mexican Peso	MXN	-20.7%	-13.1%	-20.5%

Source: Bloomberg, Wealth Securities Research

Celebrity deaths in 2016

While 2016 was turbulent for financial markets, it was a shocking year for the entertainment industry which lost many of its icons. Over the past week we learned about deaths of Grammy Award winner George Michael, Carrie Fisher (a.k.a. Princess Leia of Star Wars fame) and her mother, Hollywood icon Debbie Reynolds, who starred in the musicals and comedies including *Singing in the Rain*.

Their deaths followed what feels like an endless list of celebrity obituaries this year:

Music: Prince, David Bowie, Leonard Cohen, Frank Sinatra Jr., Glen Frey (Eagles), Maurice White (Earth Wind and Fire)

TV & Film: Gene Wilder, Garry Shandling, Zsa Zsa Gabor

Sports: Muhammad Ali and Arnold Palmer

Last Christmas

With December now behind us, we leave you with a stanza from the song "Last Christmas" by George Michael. Below is the original version, followed by a second version which came out with technology and home appliance companies replacing part of the lyrics.

(Original)

*Last Christmas, I gave you my heart
But the very next day, you gave it away*

*This year, to save me from tears
I'll give it to someone special.*

(Tech version)

*Last Christmas, I gave YAMAHA
But the very next day, you gave it HUAWEI
This year, TOSHIBA from tears
I'll give it to SAMSUNG special.*

We wish you a less volatile and prosperous 2017.

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