



Philequity Corner (December 31, 2018)
By Wilson Sy

Christmas rout turns into best one-day gain ever

After a record drop this month, US stocks rebounded last Wednesday and delivered their best performance since 2009. Despite the post-Christmas rally, many markets are expected to end 2018 with the worst annual returns since the start of the bull market in 2009.

Worst December on many counts

December has been particularly gruesome for investors due to the historic drops in US stocks for the one day, one week and one month time horizons.

- 1. Worst Christmas eve drop on record.** This year, the Dow, S&P 500 and Nasdaq posted their worst returns on Christmas eve, declining by 2.9%, 2.7% and 2.2%, respectively.
- 2. Worst week since 2008.** From December 14 to December 21, the S&P 500 fell 7.1% while the Dow plummeted 6.9%. This was the worst weekly performance of US stocks since the Global Financial Crisis erupted in 2008.
- 3. Worst December performance since 1931.** The S&P 500 and Dow are down 9.9% and 9.7% this month, on pace for the worst December performance since the Great Depression in 1931.

Biggest one-day gain for US stocks

US stocks rebounded sharply after a record decline on Christmas eve. On the day after Christmas, the Dow rallied 1,086 points, its biggest points gain in history. The Dow and S&P 500 advanced by 5% while Nasdaq rose 5.8%. In that session, all three major US indices (the Dow, S&P 500 and Nasdaq) posted their biggest single-day gain since 2009.

Worst year since 2008

2018 has been a turbulent year for stocks. It started on a bullish note with many markets notching all-time highs during the year. But due to the emergence of various headwinds, many global indices, led by US stocks, dropped sharply in December.

Returns of selected DM indices

Country	Index	Year-to-date		Peak-to-date	December returns*
		in local currency	in USD terms	in local currency	in local currency
US	Nasdaq	-4.6%	-4.6%	-18.8%	-10.2%
US	Dow Jones	-6.7%	-6.7%	-14.0%	-9.7%
US	S&P 500	-7.0%	-7.0%	-15.2%	-9.9%
Japan	Nikkei 225	-12.1%	-10.2%	-17.5%	-10.5%
UK	FTSE	-12.4%	-17.7%	-14.5%	-3.5%
US	Russell	-12.9%	-12.9%	-23.1%	-12.7%
Europe	Stoxx 50	-14.8%	-18.7%	-18.7%	-5.9%

*from start of December up to December 28

Returns of selected EM indices

Country	Index	Year-to-date		Peak-to-date	December returns*
		in local currency	in USD terms	in local currency	in local currency
India	Sensex	5.9%	-3.2%	-7.2%	-0.3%
Indonesia	JCI	-2.5%	-9.3%	-7.4%	2.3%
Malaysia	KLCI	-5.8%	-8.3%	-10.7%	0.7%
Taiwan	TWSE	-8.6%	-11.5%	-13.6%	-1.6%
Singapore	STI	-10.3%	-12.3%	-15.5%	-2.1%
Thailand	SET	-10.8%	-10.8%	-15.0%	-4.7%
Philippines	PSEi	-12.8%	-17.4%	-17.6%	1.3%
Hong Kong	Hang Seng	-14.8%	-14.9%	-23.1%	-3.8%
South Korea	KOSPI	-17.3%	-20.9%	-21.4%	-2.7%
China	SHCOMP	-24.6%	-28.7%	-29.9%	-3.6%

*from start of December up to December 28

The PSEi is down 12.8% year-to-date. Including the impact of peso depreciation, the PSEi is 17.4% down year-to-date. Despite underperforming for most of the year, the PSEi was one of the best performers for the month of December. Our market delivered a 1.3% return in December compared to double-digit declines in US and Japanese indices and negative returns for most other markets.

Rising uncertainty triggers heightened volatility

The recent round of market volatility was brought by growing uncertainty on many fronts, triggered by various developments which we enumerate below.

- Policy mistake by the Fed
- US-China trade war
- Rising interest rates
- Global economic slowdown
- Regulatory risk for big tech companies
- US government shutdown
- Algorithmic trading amid thin market liquidity

Global indices bounced from oversold conditions and on news that Trump will not attempt to fire Fed Chair Jerome Powell. In addition, markets were buoyed by plans of the US and China to resume trade talks on January, 7, 2019.

A new hope for 2019

Markets are on pace to post their worst year since the start of the longest and strongest bull market in history. This comes after many indices notched record highs during the year before succumbing to savage declines in December. The performance of the US stock market in December 2018 and the emergence of various global headwinds have raised concerns that the bull market is ending. Nonetheless, economic growth and earnings forecasts have remained positive despite recent downgrades. Cautiously optimistic that 2019 will be better, we wish our investors and readers a happy, prosperous New Year!

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