



Philequity Corner (June 1, 2020)

By Wilson Sy

Lockdown ends

Last Friday, the PSEi rose 4.8% on heavy volume of P20.4b. After months of continuous foreign selling, flows turned positive with P955m in net foreign buying. This was despite the MCSI rebalancing which reduced the weighting of MSCI index stocks to accommodate the entry of Puregold Price Club (PGOLD). These remarkable moves were caused by the announcement of Metro Manila's transition from enhanced community quarantine (ECQ) to general community quarantine (GCQ) starting today. This ends a two-and-a-half month lockdown which curtailed almost all business operations, mass transportation, and school classes. The surge in local equities is also attributed to a catch-up trade with other stock markets that have already moved higher as they ended their respective lockdowns.

Monitoring the pandemic

COVID-19 has triggered unprecedented stock market declines in the shortest periods of time, eventually killing the longest bull market in history. Unlike past bear markets, COVID-19 is not only a financial and economic crisis but also a major public health problem. Knowing this, we have closely monitored the development of the pandemic when it first grabbed international news headlines in January. Below, we cite some of our previous articles which chronicled COVID-19 in its early stages.

- In our article for the Chinese New Year, we said that the spread of the virus was a major risk for the stock market (see *Resourceful Rat*, January 27 2020).
- In the subsequent article, we identified COVID-19 as one of the three black swans which caused the Philippine stock market to sink (see *Three Black Swans*, February 3, 2020).
- With rising number of cases in Europe, warnings from the US Center for Disease Control and Prevention (CDC), and isolated cases in the Philippines, we cautioned that the world may be looking at a probable global pandemic (see *Possible Pandemic?*, February 24, 2020).

Enormous damage

On March 11, the World Health Organization (WHO) officially declared that COVID-19 is a global pandemic. Aside from causing enormous damage to the global economy, COVID-19 has afflicted more than six million people worldwide as of last Saturday. Total death count has exceeded 370,000. Total cases in the Philippines have climbed to 16,634 with 942 deaths.

Lockdowns lifted across the globe

Stock markets were lifted as lockdowns were lifted all over the world. European countries which were hit hard by COVID-19 – namely Spain, Italy, and France – have eased restrictions starting April 26, May 4, and May 11, respectively. Some American states have also started to relax their lockdowns late last month. Japan ended the state of emergency in all of its prefectures, thus causing the Nikkei to rise 2.3% upon announcement. Meanwhile, the S&P 500 has gained 36% from its recent low on March 23.

A balancing act

Despite investor optimism surrounding the lifting of lockdowns globally, a renowned American epidemiologist has cautioned against the premature reopening of certain areas which do not yet meet

the reopening criteria. Dr. Anthony Fauci warned last week, “Don’t start leapfrogging over the recommendations of some of the guidelines because that’s really tempting fate and asking for trouble.”

On the other hand, Dr. Fauci said that lockdown restrictions may end up causing “irreparable damage if imposed for too long.” He further stated, “Now is the time, depending on where you are and what your situation is, to begin to seriously look at reopening the economy, reopening the country to try to get back to some degree of normal.”

PSE reopens trading floor

The transition of Metro Manila and other important areas from ECQ to GCQ should bode well for the economy and inspire investor optimism. In line with this, the PSE has reopened the trading floor today after being forced to close for more than two months. It was the first time for the trading floor to be closed for an extended period. During this time, offsite trading and work-from-home arrangements proved to be efficient and ensured the smooth functioning of the stock market. Nevertheless, the reopening of the trading floor signals that Philippine capital markets remain open for business. This should contribute in rebuilding investor confidence in our stock market and economy.

Main risk is second wave

Investor sentiment has improved amid the reopening of the economy, but the main risk for all is a second wave of infection. Although new cases have plateaued, medical experts are concerned that the infection rate for the Philippines has not gone down markedly. Our case differs from the experiences of other countries which have likewise imposed lockdowns but are now easing restrictions on the back of a drop in new cases. A second wave of infection may hamper the expected economic recovery and the fragile rebound of the Philippine stock market. A surge in cases and deaths may warrant another lockdown.

Governments and central banks to the rescue

Leaders around the world are doing everything in their power to stop the spread of COVID-19. Meanwhile, the Philippine government has proposed a multi-pronged stimulus to counter the impact of the coronavirus. This includes a P1.3t spending plan under the Philippine Economic Stimulus Act (PESA), an immediate 5% reduction in corporate income tax to be offered by the Corporate Recovery and Tax Incentives for Enterprises (CREATE) act, and the Financial Institutions Strategic Transfer (FIST) act for banks. It remains to be seen how effective the country will be in fighting COVID-19. Nonetheless, the end of lockdowns in many countries, the determined, swift and enlightened action of governments, as well as optimism for a treatment and a vaccine, give us hope that a recovery is on its way. In this light, the bottoming-out process of the stock market should continue, barring major spike in the number of cases and a second wave of infection.

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