



Philequity Corner (November 16, 2020)

By Wilson Sy

A great day for science and humanity

Last week, a historic development for the whole of mankind was announced. Pfizer's Chairman and CEO Dr. Albert Bourla declared that their vaccine was 90% effective in preventing COVID-19. Dr. Bourla said that "today is a great day for science and humanity." He touted the vaccine as "the most significant medical advance in the last 100 years" due to the impact it will have on public health and the global economy. COVID-19 caused so much suffering around the world, resulting in the most brutal global recession of this generation and unprecedented drops in the stock market. As such, news of an effective vaccine dramatically lifted market sentiment which led to a strong tide of buying for global equities. The good news pushed the Dow, S&P 500, and Nasdaq to fresh intraday all-time highs. The Dow posted its best single-day performance since June 5 while the S&P ended the week at its all-time closing high.

PSEi jumps on vaccine news

After Pfizer's vaccine announcement, the PSEi climbed 5.2% last Tuesday on heavy net foreign buying amounting to P2.3b. It was our market's biggest daily return since March 26 and the strongest net foreign buying since October 2019. Following its surge on the back of vaccine news, the PSEi closed above 7,000 last Tuesday and Wednesday. The rally paused as the market was closed on Thursday because of Typhoon Ulysses. In addition, the PSEi pulled back last Friday after its steep ascent towards the 7,000 resistance level. Still, our stock market is up 10.2% month-to-date in just eight trading days.

Game changer

Despite record daily cases of COVID-19 in the US, investors remain bullish on the positive outlook offered by an effective vaccine. While Pfizer's vaccine was an impressive breakthrough in the field of medicine, JP Morgan strategist Marko Kolanovic said that it was also a game-changer for markets. According to Kolanovic, the vaccine would enable investors to look toward the end of the coronavirus pandemic and anticipate a broader reopening of the global economy.

Light at the end of the tunnel

The vaccine was developed by Pfizer, an American pharmaceutical giant, and BioNtech, a German biotechnology company. The vaccine utilizes mRNA technology or messenger RNAs that induce the body to produce special proteins that strengthen the immune system against viruses. Pfizer's optimism is based on the first interim analysis of the vaccine's phase three clinical study. The vaccine, which requires two doses, reportedly showed an efficacy of above 90% seven days after the second dose. White House coronavirus advisor Dr. Anthony Fauci had previously said that a vaccine with a 50-60% efficacy rate would be acceptable already. Effectivity rates for current flu vaccines are only at 50-60%. Though there are still many issues that have to be resolved pertaining to transportation and storage, the development of a vaccine with a high efficacy rate serves as a light at the end of this dark tunnel.

Help is on the way

In response to the news on Pfizer's vaccine and as a message to people who suffered because of the pandemic, Dr. Fauci said that "the cavalry is coming." He urged citizens to not give up and continue

fighting because “help is on the way but it’s not here yet.” Instead of being complacent because of a potential vaccine, Dr. Fauci reiterated the importance of staying disciplined and doubling down on public health measures amid surging coronavirus infections in the US.

Central banks, Congress may need to do more

In a meeting among major central banks, Fed Chair Jerome Powell said that the vaccine was “certainly good for the medium term.” However, he also cautioned that it was “too soon to assess the implications for the path of the economy, especially in the near term. And I would say that with the virus spreading, the next few months could be challenging.” Powell further explained, “my sense is that we will need to do more, and Congress may need to do more as well in fiscal policy.”

In the same meeting, European Central Bank President Christine Lagarde responded to news of the vaccine by saying, “From a huge river of uncertainty, we see the other side now.” In this regard, Lagarde highlighted the importance of monetary and fiscal policies which bridge us “over to the other side of the river and continue to support the economy so there is as little lasting damage as possible.”

Philippines, prime beneficiary of vaccines

Though there are still challenges ahead, an effective coronavirus vaccine is a game-changer for financial markets and a life-changing event for citizens across the globe. Pfizer’s historic vaccine announcement and the election of Biden as US president eased market uncertainty and caused a dramatic shift in sentiment. This triggered a rotation from defensives to cyclical, growth stocks to value stocks, and mega-tech companies to battered sectors. This rotation has also taken place among countries as investors shift out of leaders and into laggards.

It may take time for the Philippines to avail of the Pfizer vaccine as it requires adequate and potentially expensive cold storage facilities that are able to withstand our tropical climate. However, investors and fund managers are forward-looking. Thus, the more optimistic outlook and improving market sentiment brought by the vaccine news drove an impressive rally in Philippine stocks. We ultimately believe that the country’s consumption-driven economy will be a prime beneficiary of the development of effective coronavirus vaccines. This explains the outperformance of the PSEi in recent weeks after being an underperformer during the start of the pandemic.

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) 8250-8700 or email ask@philequity.net. optimistic