



Philequity Corner (December 26, 2022)
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Grinch versus Santa

Based on historical data, December is the strongest month in terms of stock market performance. In the last 40 years, the S&P 500 posted an average return of 1.6% in December with a batting rate of 78%. However, the Santa Claus rally this year was stifled by central banks. Like the Grinch who hates Christmas, central banks have continued to tighten monetary policy. The recent wave of global monetary tightening has raised fears that overtightening by central banks will cause a recession.

Last bastion

Financial markets were jolted last week after the Bank of Japan (BOJ) widened the target trading range on its 10-year bond yields from 0.25 to 0.5%. Japan is considered the last bastion of easy money. The BOJ had kept its ultra-loose policy even as other major central banks had started raising rates. Investors are concerned that Japan's expanded yield curve control may be signaling its eventual transition to monetary tightening. The BOJ's policy action caused the yen to sustain its strengthening momentum. From its October low of 152, the yen has gained 12.7% and is now trading at the 132 level. The BOJ's move also triggered the 4.7% drop of the Nikkei last week. This is the latest among the long list of central bank actions that has caused the worst global stock market performance since the 2008 global financial crisis. The yen is the third-most important currency in the world, following the dollar and the euro. Higher interest rates in Japan would trigger a repatriation of funds which may result in more financial market turbulence.

Synchronized global monetary tightening

Recession fears were fanned by the synchronized interest rate hikes implemented by most countries around the world. Central banks raised interest rates to address soaring inflation and respond to the Federal Reserve's (Fed) policy rate hikes. As Fed Chair Jerome Powell stated in his speeches, it is the responsibility of central banks to bring inflation down to manageable levels because of their mandate of price stability. However, a sharp increase in borrowing rates would hamper credit activity, and this may result in slower economic expansion or even a sharp recession. The S&P 500 is down 5.8% month-to-date and is on its way to its worst December since 2018. Barring any last-minute surprises, it seems that the Grinch has beaten Santa this year.

Greatest game on earth

People have been in a glum mood due to the anxiety caused by the COVID pandemic, the angst of inflation, fears of a sharp global recession, an ongoing war in Ukraine, and the dismal performance of financial markets across all asset classes. The World Cup came as a welcome respite from all these. Basketball is the country's favorite sport and pastime, but football is actually the world's most popular sport. The 2022 World Cup in Qatar featured many memorable moments and thrilling upsets. The tournament culminated in the finals match between Argentina and France. Many consider this to be the best and most exciting World Cup finals ever.

Most amazing finals

With 10 minutes to go, Argentina was up 2-0 on the back of goals by Lionel Messi and Angel di Maria. By a twist of fate, French phenom Kylian Mbappe unbelievably scored two goals in 10 minutes, thereby forcing an overtime. Messi and Mbappe both scored in the extra period, and both squads were tied 3-3 at the end of overtime. Mbappe hit three goals in a single game, achieving a rare and impressive hat trick in a finals match. After a nail-biting penalty shootout, Argentina prevailed over France and became the 2022 World Cup champion. The joy and jubilation brought about by Argentina's win was clearly seen among the players, their countrymen, as well as billions of people around the world. Some have commented that the electrifying finals match seemed like a blockbuster Netflix movie that could not have been scripted any better.

Magic Messi

Much of the attention on Argentina was focused on its leader and star. Messi had already been considered one of the game's foremost players after achieving all the accolades in football. These include a record seven Ballon d'Or awards, an Olympic gold medal, and numerous achievements playing for FC Barcelona. A World Cup championship win was the only one missing in Messi's illustrious career, and he delivered an epic performance in this tournament. In his fifth World Cup, Messi scored a total of seven goals, second only to Mbappe's eight. With Argentina's win, Messi now stands beside Brazil's Pele as one of football's all-time greats. It was a delight to watch the greatest of all time (GOAT) weave his magic across the field in his final World Cup appearance. We are lucky to witness history in the making.

Redemption for the Blue Eagles

Aside from the World Cup, the UAAP basketball tournament has provided an enjoyable diversion from market volatility. The UAAP finals featured a rematch between the Blue Eagles and the Fighting Maroons. Ateneo won the series by relying on disciplined offense, tenacious defense, and brilliant coaching. The Fighting Maroons mounted a comeback in the dying minutes of Game 3, but the Blue Eagles were able to maintain their composure and protect their lead. Congratulations to the Ateneo Blue Eagles for winning the championship and regaining their dominance. Kudos to the UP Fighting Maroons for their never-say-die attitude and strong performance in the past two seasons. The newfound rivalry between Ateneo and UP is something to look forward to.

We wish everyone a peaceful, healthy, blessed, joyous, and better New Year. Happy holidays!

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