MAY 05, 2025

PHILEQUITY CORNER

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Is the tariff war beneficial for the Philippines?

During board meetings or dinner with friends, these questions frequently arise: How will tariffs affect our economy, the peso and the stock market? What does this mean for BSP and interest rates? Should we adjust our stock portfolios? Who will win the US-China trade war? Who are the other winners and losers?

In global trade wars, most countries lose - but some are less affected. Amid the current tensions, the Philippines is emerging as an unexpected beneficiary, with its peso and stock market outperforming regional peers. This relative success stems from several factors that have positioned the country to weather trade disruptions better than many of its neighbors.

A lighter tariff burden

The US has imposed tariffs worldwide, but the Philippines faces a relatively modest 17% levy, the lowest in Southeast Asia. By comparison, Vietnam and Thailand face punishing duties of 46% and 36%, respectively. This lighter burden, coupled with the Philippines' limited trade exposure, has shielded our economy from the worst of the global fallout.

With domestic consumption driving 77% of GDP and exports to the US a modest 16.8%, the country is not as vulnerable as many of our export-oriented neighbors. Ironically, the country's insularity has been a strength, allowing it to weather global trade disruptions comparatively better.

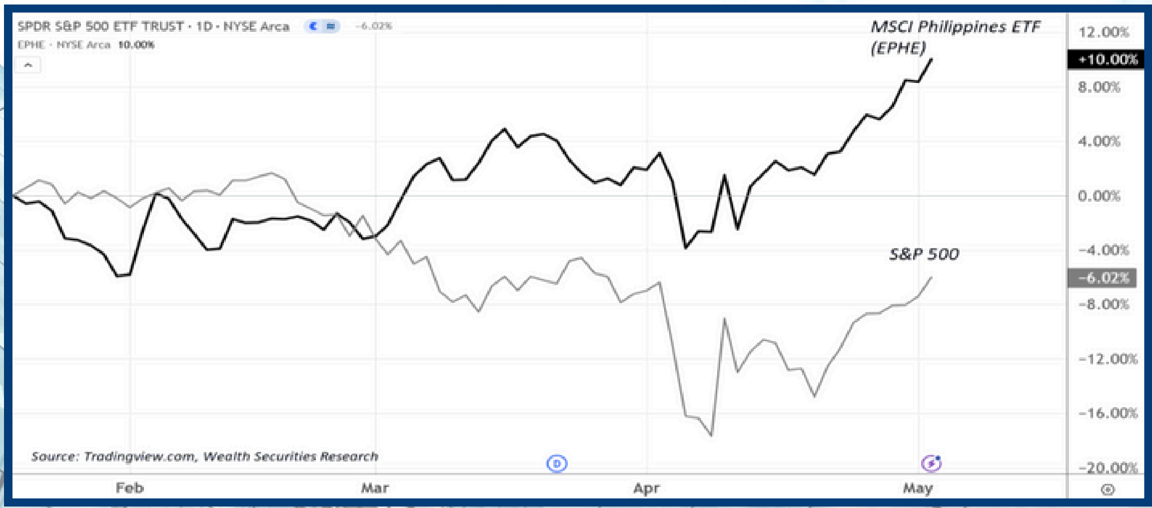
Philippine peso and stocks outperform

The Philippines' relative insulation from trade tensions has produced notable market results. For the first 100 days of Trump's presidency, the Philippine peso has appreciated 4.9% against the dollar, making it Asia's best-performing currency. Meanwhile, the greenback slumped 7.8% over the same period, marking the worst drop for "the first 100 days of presidency" since the Nixon era in 1974.

Asian EM Currencies	Trump's first 100 days Jan 20 - Apr 30 (%)
Philippine Peso	4.9%
Singapore Dollar	4.8%
Malaysian Ringgit	4.4%
Thai Baht	3.1%
Taiwanese Dollar	2.9%
Indian Rupee	2.5%
South Korean won	2.3%
Chinese Yuan	0.7%
Indonesian Rupiah	-1.4%

Major Currencies	Trump's first 100 days Jan 20 - Apr 30 (%)
Swiss Franc	10.8%
Euro	10.3%
Norwegian Krone	10.0%
British Pound	9.5%
Japanese Yen	9.3%
New Zealand Dollar	6.3%
Canadian Dollar	4.9%
Australian Dollar	3.4%
US Dollar Index (DXY)	***-7.8%***

The MSCI Philippines index has gained 8.5% over the same period, significantly outpacing the S&P 500's 8.0% decline. Meanwhile, regional peers have struggled, with MSCI Malaysia gaining a modest 1.5%, while MSCI Indonesia and MSCI Thailand fell 7.4% and 7.5%, respectively.



PSEi's low valuation

These substantial gains come from a market still priced well below historical averages. The PSE Index is trading at a historically low price-to-earnings (P/E) multiple of 10x, cheaper than the 12x seen during the pandemic. Large corporate buybacks have supported the market.

Recent days have shown increased foreign buying as global funds diversify from expensive US markets toward emerging markets like the Philippines. Even a small reallocation of global capital could translate into significant gains for Philippine stocks given the market's relatively small size.

BSP's measured easing supports markets

Declining inflation, softer oil prices, and the broad US dollar weakness give the Bangko Sentral ng Pilipinas (BSP) room to implement an accommodative monetary policy without risking a large peso decline. Last month, the BSP cut its benchmark rate by 25bps to 5.5%, signaling further easing ahead. BSP Governor Eli Remolona has emphasized a measured approach of "baby steps" on policy easing, suggesting 25 bp cuts at a time with room for further rate reductions this year. This favorable monetary environment with controlled inflation creates ideal conditions for the Philippine economy and stock market.

US stocks rebound, trade talks emerge

While Philippine assets have outperformed, US markets have staged an impressive recovery last week. US stocks rebounded with the S&P 500 index posting a nine-day winning streak led by the Magnificent Seven. Meta, Microsoft, Alphabet, and Amazon delivered stellar 1Q2025 earnings and surprise estimates. Hopes of US-China trade talks, with Treasury Secretary Scott Bessent hinting at de-escalation, and China's ethane tariff exemption, fuel optimism. April's nonfarm payrolls adding 177,000 jobs, defying expectations, further bolstered the positive sentiment.

A resilient Philippines

The Philippines stands out in a volatile global market, driven by its domestic-focused economy, low tariff exposure, and undervalued stocks attracting foreign interest. The US market remains compelling, with outstanding companies like the Magnificent Seven driving gains, and investors continue to favor it. While the US market remains dominant, even modest diversification into emerging markets like the Philippines could further strengthen the peso and boost Philippine stocks, reinforcing the country's surprising resilience in the face of ongoing trade uncertainties.

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.