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PHILEQUITY CORNER

By Wilson Sy

Crystal ball at the PSE

Philippine Stock Exchange President Ramon S. Monzon seems to have a crystal ball.

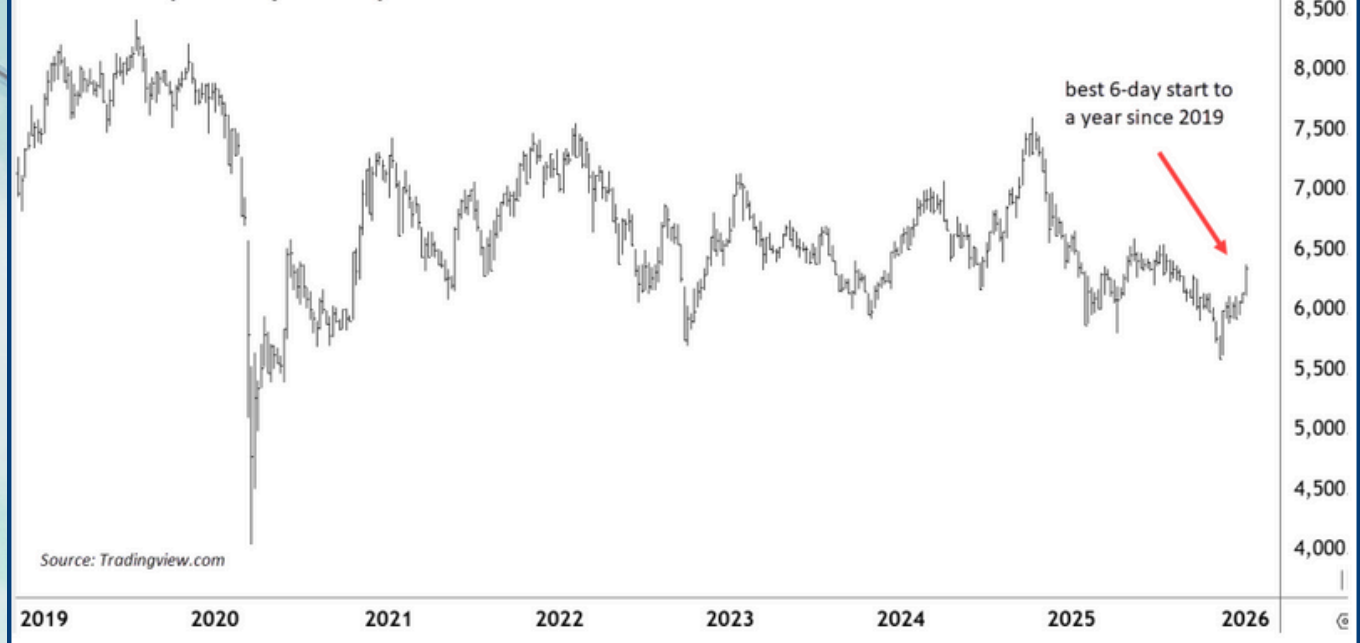
In his New Year message to the board, he wrote: "Happy New Year PSE Directors. The market is poised for a turnaround in the coming year and with your guidance Management hopes to achieve most, if not all, of its goals to help make this a reality."

The PSE Index (PSEi) quickly tested that call, jumping 4.88 percent in the first six trading days of 2026. It closed at 6,348.14 last Friday – the best six-day start to a year since 2019.

A welcome start to 2026

When a market has been range-bound for so long, a strong opening carries more meaning. It doesn't guarantee a new cycle, but it can signal a change in posture. The question is whether this is just a January bounce. Or whether the Philippines is finally catching up to the rotation and broadening that lifted most markets last year, even as the PSEi lagged.

PSE Index (2019 - present)



Rotation: when leadership changes hands

In market terms, rotation is simply leadership shifting from yesterday's winners to yesterday's laggards. A crowded trade pauses, investors take profits, and capital starts searching for the next under-owned pocket of opportunity. It's a healthy "hand-off" from one set of leaders to another that keeps a bull market alive.

We are seeing that in the U.S. to start 2026. The Magnificent Seven (Mag7) stocks that dominated in previous years are up just 0.62 percent in the first six sessions. Meanwhile, the small-cap index Russell 2000 is up 5.71 percent. As mega-cap tech has paused, other areas – banks, materials, pharma, defense, airlines, energy, and transportation – have started to lead.

Broadening: from the few to the many

Rotation is the change in leadership. Broadening is the market widening, with more sectors, styles and regions joining the move. That matters because it makes rallies sturdier. When participation is wider, the market is less dependent on one theme.

Broadening is now spreading from sectors to global markets, as investors widen their opportunity set beyond the U.S. In the first six trading days of 2026, the MSCI Emerging Markets (symbol: EEM) is up 4.44 percent, beating the S&P 500's 1.76 percent. That builds on a rare 2025 outcome, when emerging markets outperformed the S&P 500 by a wide margin, 30.82 percent vs. 16.39 percent. Most markets already rode the broadening phase last year. The Philippines largely did not.

Best and Worst

After six trading days, the PSEi is among the best-performing equity markets in Asia, ranking second only to Korea's KOSPI, which is up 8.83 percent. For a market that has been stuck in a wide trading range, that is a notable early reversal.

But one constraint bears watching: the peso has been weaker than most Asian currencies, second only to the South Korean won. Since foreign investors measure returns in dollars, currency stability materially lifts total return. If the peso steadies, it becomes a tailwind rather than a drag.

Why the “broadening trade” matters to the Philippines

When global leadership is narrow, investors crowd into the deepest and most liquid trades. That tends to leave smaller markets like the Philippines behind. When leadership broadens, capital starts looking beyond the most crowded trades and into markets that are under-owned, overlooked and offering value. That is why the PSEi's strong start is worth paying attention to. The Philippines may finally be getting its share of a global catch-up. At 9.4x FY26 earnings, valuations still look cheap versus markets that have already rerated.

Risk-reward is compelling

In our Dec. 1 article, “Have we seen the bottom in Philippine stocks,” we laid out why we were turning more constructive. Valuations are already pricing in a lot of bad news. Foreign positioning is light after years of selling. Inflation is benign. And Philippine equities offer an attractive yield buffer versus global markets. Even at current levels, the risk-reward still looks favorable. With global markets making new highs, the downside for the PSEi may just be staying range-bound for longer. But the upside is compelling if the rally continues to broaden.

In the end, sustaining the rally will hinge not only on valuations, but also on earnings performance and restored trust in government. Earnings need to validate the turnaround. And trust will depend on what the government does next, especially in resolving the corruption issue. A credible resolution would narrow the risk premium and support a re-rating.

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.