



Trend Spotting

March 2020

Welcome to Trend Spotting, your quarterly source for market news and forecasts from AXA. Let us review the market performance during the first quarter and see what we could expect for the remainder of the year.

Global view for the year

Central Bank support to continue

- The U.S. Federal Reserve intends to keep interest rates at its current low level which will allow growth to continue for the year.
- The Bangko Sentral ng Pilipinas (BSP) will be monitoring growth factors and will step in with necessary actions to spur the economy if these factors fall short.

How COVID-19 affects the market

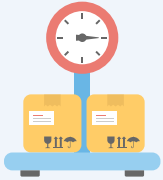


As of March 9, COVID-19 has affected over 70 countries worldwide with 110,041 confirmed cases, majority coming from mainland China.



Impact in China

There are two factors that have been greatly affected by COVID-19 in China.



Supply chain

- The Chinese export trade have been hampered by production factories which closed due to the outbreak
- Large-scale cancellation of airlines increased demand of air freight shipping and tripled its rates in a span of just a week



Labor

- 67% of migrant workers, or Chinese nationals who reside in the countryside and migrated to the city for employment, have not returned to work.
- Many factories are experiencing a significant labor shortage due to travel restrictions and 14-day mandatory quarantines.



Impact in the U.S.

The S&P 500 Index, one of the most followed equity indices which represents 500 large companies in the U.S., experienced its quickest 'correction', or price decline of at least 10%, in over 80 years.

In just 6 days, the index dropped from 3386 to 2978—that's equal to 12%.

S&P 500 Index



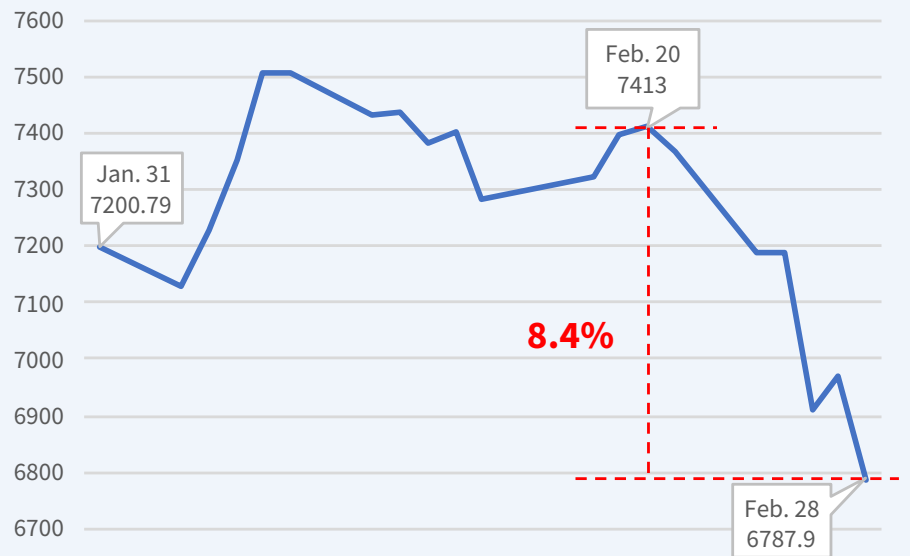


Impact in the Philippines

Like many markets across the world, the PSEi is moving almost identically with the U.S. stock market. Markets across the world tend to have the same movements during events wherein the economic impact is felt on a global scale (i.e. the Global Financial Crisis of 2008).

The expectation is that the PSEi will continue to move with the U.S. in the near term.

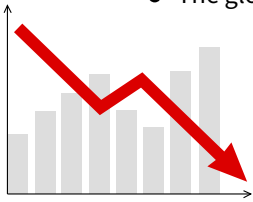
Philippine Stock Exchange



Why did this happen?

China, the world's second largest economy, is responsible for 19% of the world's gross domestic product (GDP) and over 12% of the global trade. China's large-scale quarantine greatly impacts not just the U.S. but also the global supply chain.

- Global companies are now experiencing the effect of China's crippled labor and supply chain due to COVID-19.
- The global spread of the virus has turned investors' sentiment towards an unfavorable outlook.



Stock markets have gone down as a result of investors selling their stocks in anticipation of the decline in prices. While the market movements as of now mainly reflect investor sentiment of the global economy, we are still wary of how the spread of the virus could legitimately affect markets in the days to come.

What is the government doing for economic recovery?



Amidst investors' fears regarding COVID-19, the U.S. Federal Reserve announced that they will cut interest rates by 0.5%. This cut brings the rate of lending down to a range of 1.0% to 1.25%--the biggest one-time interest rate cut by the Fed since the 2008 recession. **This is consistent with our global view for the year.** This cut will allow easier borrowing conditions for consumers and corporations.

So, what does this mean for markets now?

- While the cut does not directly solve low productivity across the global supply chain brought about by the outbreak, what this move tells us is that the government is looking out for long-term growth.
- The current outbreak is seen as an event that will eventually be contained. When this happens, this easier borrowing conditions will help spur more economic activity.

Funds that we recommend



We still recommend that you limit exposure to Asia Growth Fund for now since this is heavily weighted in China.

Given the recent decline in both the U.S. and Philippine markets among many other global markets, we also recommend to shift a small portion of your investment in equity funds to bond funds for the meantime.

Maximize your investment

- **For investors in PHP funds, you may move a small portion of your equity funds to the Wealth Bond Fund.** This is so you can maintain your investment in equities and capitalize on any gain in case PSEi recovers quickly. The PSEi is currently low-priced at 14.95x Price/Earnings, which tells us that when a bounce back occurs, it could be a significant one.
- **For investors in USD funds, we recommend that you also move a small portion of your equity investment to a bond fund (Premium Bond Fund or Global Dynamic Allocation Fund – Stable).** However, for those in Global Advantage Fund (GAF), we also advise you to consider moving larger portions of your investment to bonds. The GAF is at an expensive level of 25.63x Price/Earnings, which could hamper its ability to make a large bounce back.

**Call your AXA financial partner for a more in depth discussion
on how you can maximize your investments today.**

Sources:

China Supply Chain & Labor <https://www2.deloitte.com/us/en/insights/economy/global-economic-outlook/weekly-update.html>

Effect on U.S Market <https://www.marketwatch.com/story/here-are-5-reasons-the-stock-market-is-having-its-worst-decline-since-2008-and-only-one-of-them-is-the-coronavirus-2020-02-27?mod=us-markets>

Effect on U.S Market <https://foreignpolicy.com/2020/02/25/coronavirus-global-stock-markets-economic-downturn/>

Effect on U.S Market <https://foreignpolicy.com/2020/02/18/coronavirus-economic-impact-worldwide-supply-chain-disruptions/>

Effect on U.S Market <https://edition.cnn.com/2020/02/25/investing/asian-markets-latest/index.html>

Effect on PH Market <https://www.gmanetwork.com/news/money/economy/727285/security-bank-philippines-unlikely-to-meet-economic-growth-target-for-2020/story/>

COVID-19 Updates <https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6>