Monthly Market Update

May 2020

The global health crisis has brought about different government responses. One of the common strategies in most affected countries is implementing a lockdown which has resulted in lower economic activities.

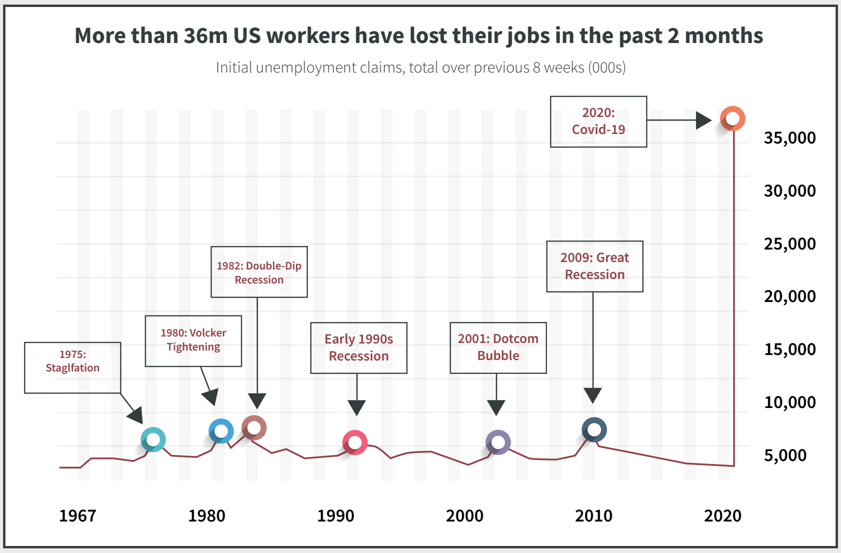
The current situation

Lockdown measures aim to slow the rate of infection and ‘flatten the curve.’

As of May 28, 2020, here are the total number of COVID-19 cases:
- Worldwide: 5.9M cases, over 350,000 deaths
- Philippines: 15,588 cases, 921 deaths

If the virus continues to spread, the number of positive cases will increase exponentially and inevitably overwhelm the health care system of any country. This is what lockdown measures prevent.

However, one of the direct effects of a lockdown is the temporary closure of businesses, which effectively shuts down the economy. **In just two months, this crisis has caused more job losses in the U.S. than the recessions in the past.**



Massive unemployment poses a problem to the strength of the consumption-driven U.S. economy. Personal consumption has made up 67-68% of U.S. gross domestic product (GDP) over the last 20 years, and a significant portion of these contributors have just lost their job.

Moreover, 48% of U.S. workers are employed by small businesses, a sector of the U.S economy that is at risk due to the current crisis. Almost 60% of small businesses in the U.S. have already applied for financial aid.

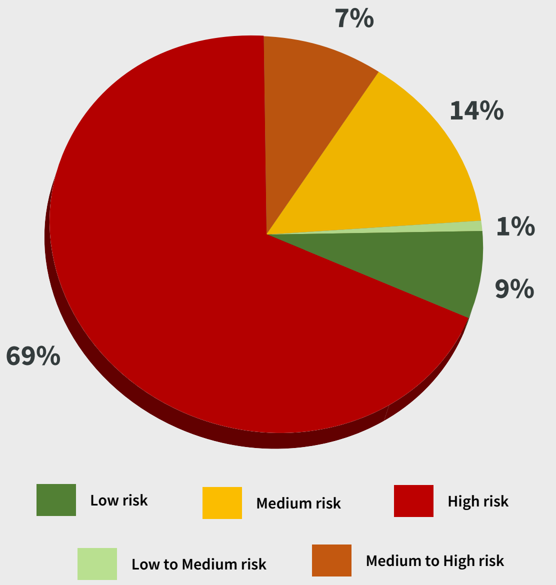
However, there are some business sectors, like tech, that can strongly take advantage of the lockdown. With people staying at home, online alternatives for communication such as Microsoft Teams and Google Hangouts and Classroom, and entertainment like Netflix and Amazon, are expected to grow further given the current circumstances.

What may happen

In a similar way, the Philippine economy is also consumption-driven (over 70% of the GDP over the last 20 years). Because of this, if the country experiences massive unemployment, our economy will be at an even greater risk of shutting down.

Illustrated below are the various economic sectors, grouped together according to its risk level for job security due to the current lockdown. The percentage represents the portion of the Filipino workforce that belongs to a specific risk category (i.e. 69% of the PH workforce are in high risk sectors, 9% are in low risk sectors).

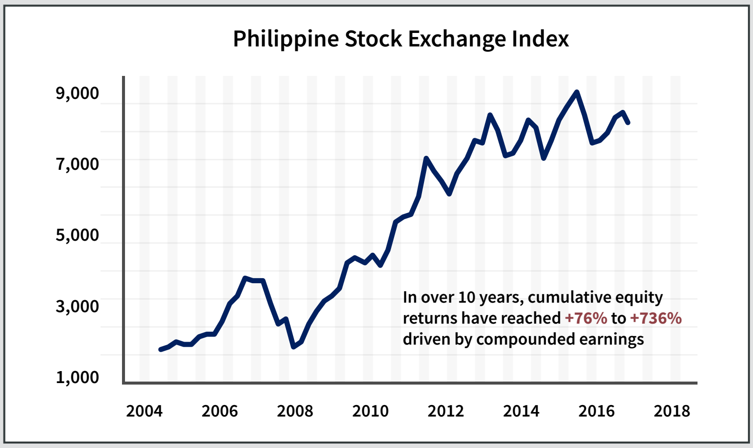
Distribution of employment along risk spectrum % country's workforce



- Utilities, education, human health and social work activities
- Agriculture, forestry and fishing
- Mining and quarrying, construction, financial and insurance activities, professional, scientific and technical activities, other services activities
- Transport and storage, arts, entertainment and recreation, information and communication
- Manufacturing, wholesale and retail trade, repair of motor vehicles and motorcycles, administrative and support service activities, accommodation and food service activities, real estate activities

Currently, majority of the workforce are at high risk for unemployment due to the limited mobility brought about by the lockdown. Like the U.S., 60% of Filipino workers are employed by MSMEs (Micro, Small, & Medium Enterprises), which presents added risk to their employment as MSMEs have lower business buffers and access to emergency funds. The possibility of a continued lockdown may lead to higher unemployment rate, which then results in lower consumption, investment, taxes, and other key economic drivers.

However, historically, even with the past recessions that had worse market drops, the global stock market performance has remained resilient and eventually recovered over time.



Within a year, equity returns have the potential to swing from -50% to +93% (e.g. PSEi from September 2018 – 2019).

Once you look at a longer time horizon fit for your investment (i.e. 10 years), you can see how well the market can recover and experience potentially high gains. Note, however, that these returns are not guaranteed. These just show the stock market's potential gains once it starts to gradually recovery.

Our recommendation

You should not worry about the small waves. An effective way to ride out the short-term drops in the market and help avoid large losses is to have a diversified portfolio. Investors have varying levels of risk appetite and preferred asset allocation. Taking this into account, here are our recommendations based on your current allocation:

- If you have **at least 75% bonds allocation:**
  - We encourage a fund switch to equities and top-ups to your account. Having a bond allocation adds stability to your portfolio especially in the short-term. Although, in the long term, a heavy bond allocation may limit the growth potential of your investment due to lower anticipated returns for bonds compared to equities.
  - Investors with your allocation are typically risk-averse and often fall under **cautious, conservative,** or **balanced investors**. Depending on your risk preference, kindly see our recommended allocation in the table below.
- If you have **at least 50% equities allocation:**
  - We encourage a fund switch to a money market fund and top-ups to your account.
  - Investors with your allocation typically have a high-risk appetite and often fall under **balanced, growth-oriented,** or **aggressive investors.** Depending on your risk preference, kindly see our recommended allocation in the table below.

	CAUTIOUS	CONSERVATIVE	BALANCED	GROWTH-ORIENTED	AGGRESSIVE
Money Market Fund Peso Liquidity Fund (PHP) Capital Investment Fund (USD)	40%	30%	20%	10%	0%
Fixed Income Fund Wealth Bond Fund (PHP) GDAF-Stable (USD)	50%	50%	30%	30%	20%
Equity Fund Wealth Equity/ Chinese Tycoon (PHP) Global Advantage Fund (USD)	10%	20%	50%	60%	80%

Long term, it will also help to top up regularly or when you can. This way, you will be able to apply 'cost averaging,' a strategy where you take advantage of cheaper fund prices. This approach effectively brings down the overall cost of your investment since you are able to purchase units at a lower price.

During these times, we encourage that you keep your future goals in mind. Remember that the reason you are investing in the first place is for your future.

Call your AXA financial partner for a more in-depth discussion on how you can apply these recommendations.

Sources:
- *https://www.ft.com/content/0b582c93-2bec-46db-a6e3-e5026b3faeb0 (U.S. Jobless Claims History)*
- *https://fred.stlouisfed.org/graph/?g=hh3 (U.S. Consumption as % of GDP)*
- *https://www.jpmorganchase.com/corporate/institute/small-business-economic.htm (U.S. Small Business Data)*
- *https://www.dti.gov.ph/resources/msme-statistics/ (PH MSME Data)*
- *Philippine Statistics Authority, International Labour Organization (PH Sector Data)*