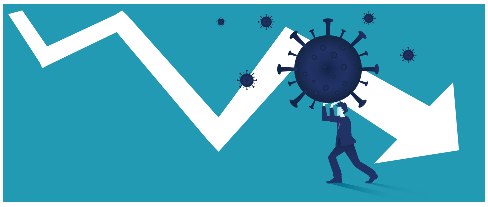
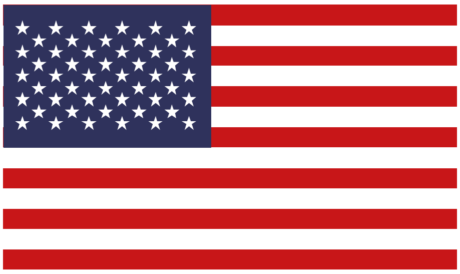
Monthly Market Update

July 2020

In one of President Duterte's press conferences in July, he expressed that he wants to take a cautious approach in reopening the economy due to the rising COVID-19 cases in the country. What impact could this approach have on the road to recovery of the Philippine economy?



Compare: The United States' reopening of the economy

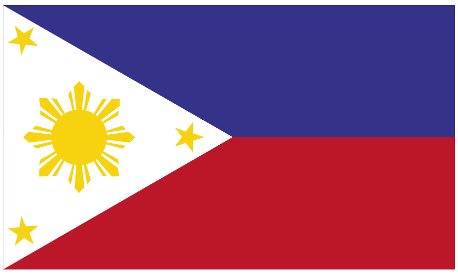


Let's take a look at how reopening its economy affected the United States. With less restrictions in mobility and with people going back to work, economic activity, as predicted, picked up. There was a slight bounce back in cumulative jobs as states started to reopen in May and June. Since the record-breaking job loss of more than 20 million in April, there was an increase of 4.8 million jobs in June. The unemployment rate also went down from 14.7% to 11.1% by the end of June. While this is still the highest unemployment rate since the 1940s, it is a welcome improvement.

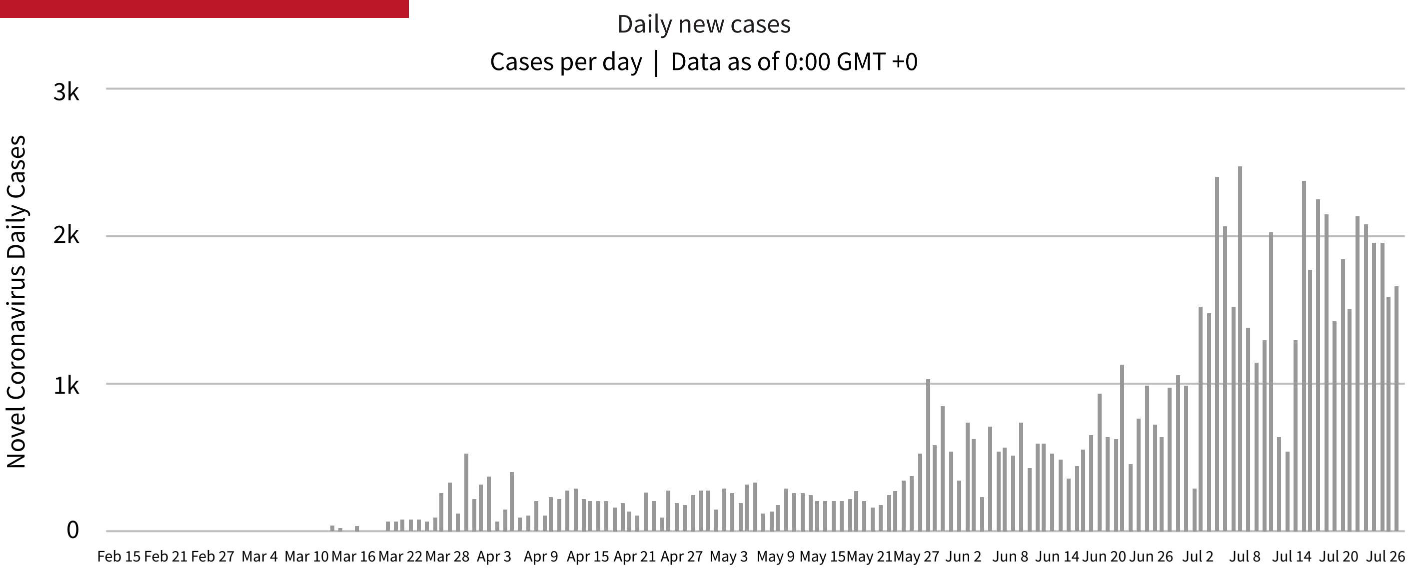
However, a major risk when reopening the economy in the middle of a pandemic is the resurgence or increased transmission of the virus. The U.S. has had an increase in daily new cases of COVID-19 since they started easing quarantine measures. As of July 12, 2020, 46 out of 50 states had a higher rise in daily new cases compared to the past weeks. This shows how easy it is for viral transmission to occur when lockdown measures are lifted, and social distancing cannot be assured.

Because of the increase in daily new cases, people have started to retreat again indoors. As a result, general mobility together with the recovery of the job market have slowed down.

Here and now: The Philippines' road to recovery



The Philippines is seeing its own rise in daily new cases of COVID-19 over the past one and a half months, almost coinciding with the start of the general community quarantine in Metro Manila. Since the latest figures on unemployment is as of April 2020—which is at 17.7% unemployment rate—we have yet to see the effect of this recent rise in cases on the labor situation in the country.



(from worldometers.info)

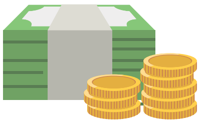
Along with containing the virus, government response and policies are crucial to our road to economic recovery. Fortunately, the fiscal and monetary support provided by the Philippine government has provided relief in Philippine markets.

Fiscal support

The House approved a P1.3 trillion stimulus package which covers:

- Wage subsidies for workers, including overseas Filipino workers (OFWs), affected by job loss during the pandemic
- Funding support for businesses in heavily impacted sectors (i.e. transportation, tourism, small businesses)

This has helped workers and companies in their operations and continuously aid them in their road to recovery.



Monetary support

The Bangko Sentral ng Pilipinas (BSP) has cut interest rates by a total of 1.75% throughout the year to bring it down to 2.25%, which is the lowest it has gone. This will help generate economic activity by encouraging spending with easier lending terms.

Our recommendation

A lot of factors contributed to the bounce back we see in markets today, such as fiscal and monetary support from various governments in their respective countries, including the Philippines. However, rise in daily cases of COVID-19 may trigger stricter quarantine measures, which may negatively affect our economy again.

Because of this, you should still practice cautious optimism in investing. Always refer to your long-term goal when making decisions about your investments. Ride out short-term drops by having a diversified asset allocation or putting your funds in different assets.

If you have extra funds to invest, we recommend topping up on your account value. So you can take advantage of the factors mentioned above, you may allocate 50% of your top-up to bonds. Invest the remaining 50% to your current equity fund to help manage the limited long-term growth potential from bonds in the future. For your bonds top-up, we recommend: Wealth Bond Fund for PHP investors and Premium Bond Fund for USD investors.

Otherwise, we recommend making a fund switch: move 50% of your funds to bonds—you may choose to invest in the bond funds mentioned above—and the remaining 50% to your current equity fund. This also lets you diversify your investment and take advantage of the factors we cited.

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

Sources:
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