



Monthly Market Update

August 2020

On August 3, 2020, President Duterte placed Metro Manila, Laguna, Cavite, Rizal, and Bulacan under Modified Enhanced Community Quarantine (MECQ) for 15 days. The stricter community quarantine was imposed again to prevent the collapse of the country's health care system. How did this move affect the Philippine economy?



A look at the numbers

On August 6, 2020, the Philippines officially surpassed Indonesia as the country with the largest COVID-19 outbreak in the region. Philippines ranked first in Southeast Asia with a total of 139,538 cases, closely followed by Indonesia with 128,777 cases.

On the same day, the country officially entered a recession. The Philippine Statistics Authority (PSA) announced a 16.5% contraction in the country's gross domestic product (GDP) for the second quarter of the year—this is a steeper contraction compared to last quarter.

Record Drop Philippine economy shrinks 16.5% YoY amid virus woes

■ Philippines GDP Constant Prices YoY - Last Price



Source: Philippine Statistics Authority

What led to the Philippine economy's recession?



The long and strict lockdown imposed by the government was necessary to prioritize the health and lives of people. However, the business stoppage caused by such a long lockdown significantly slowed down the country's economic activities. As an effect, unemployment rate also reached as high as 17.7% in April.

Road to recovery

Since the Philippine equity market is heavily influenced by investor sentiment and foreign investment flows, the pandemic situation locally has caused the Philippine Stock Exchange Index (PSEi) to severely lag behind global indexes (e.g. S&P 500, Nasdaq-100, MSCI World). The danger of imposing MECQ again in the nation's capital is how another slowdown in the economy's productivity could hurt local markets further. However, as mentioned earlier, a stricter community quarantine is crucial to help prevent the collapse of our health care system. So, what factors should we look out for to see if our economy is on its road to recovery?



1. Continued monetary and fiscal support from the government

The stimulus that they have provided in the first half of 2020 has helped soften the blow. However, as we can see from our second quarter GDP, it was not enough to push the economy toward a recovery. The good news on this front is that the 'Bayanihan 2' act has been passed in its third and final reading. This stimulus aims to cover procurement of medical supplies, relief to those unemployed due to COVID-19, loans for small businesses, and assistance to impacted sectors such as tourism.

It's important to point out that many experts say that this stimulus will not be enough to help the economy and affected sectors recover. We, then, should continue to look out for more support from the government.

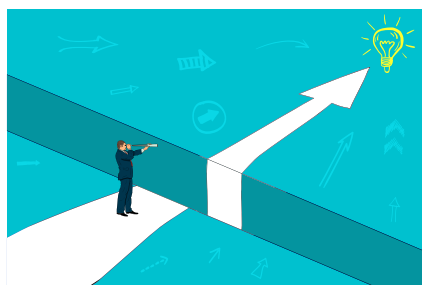
2. Research and medical development in fighting COVID-19



The Philippines has recently accepted Russia's offer of free vaccine supplies when their vaccine candidate succeeds in trials and reaches regulatory approval. The Philippines is also in talks with the U.S, U.K., and China for possible vaccine supplies.

Many researchers have made significant progress in developing a vaccine but, as of now, there is no officially approved vaccine yet. Any good news on vaccine development helps boost positive sentiment to markets, so we should closely watch the top vaccine candidates globally.

Our recommendation



In the meantime, it is best to continue practicing 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.

For PHP investors, if you have extra funds to invest, we recommend topping up on your account value. Given 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.

If you can invest in USD, we recommend you do so as global markets continue to recover. We also encourage topping up on your account value. You may allocate 50% of your top-up to Premium Bond Fund as the safe investment. For the remaining 50%, you may allocate it to Global Advantage Fund which is invested in the tech-focused Nasdaq-100 Index that continues to outperform other global indexes.

In the meantime, it is best to continue practicing 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. To achieve this, simply invest in our **Wealth Balanced Fund (PHP) or Globally Dynamic Allocation Fund: Multi-Asset (USD)**. However, if you want to manage a balanced portfolio yourself, below are our suggestions:

For PHP investors, we recommend topping up on your account value. Given the factors mentioned regarding stimulus packages by the government, you may do the following:

- **Allocate 50% of your top-up to bonds** to take advantage of further monetary easing and protect your capital from large market drops. **We recommend Wealth Bond Fund for your bonds top-up.**
- **You may invest the remaining 50% in your current equity fund** to help manage the limited long-term growth potential from bonds in the future.

On the other hand, **if you are able to invest in USD, we encourage you to top up as global markets continue their recovery.**

- **Practice cautious optimism by allocating 50% of your top-up to Global Advantage Fund.** Although the Nasdaq-100 Index has reached its all-time high, don't put all your eggs in one basket and take caution in case a sell-off or sale of assets suddenly happens.
- Invest the remaining 50% of your top-up to a bond fund. We recommend either **Premium Bond Fund or Global Dynamic Allocation Fund: Stable for your bonds top-up.**

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

Sources:

https://pcoo.gov.ph/news_releases/metro-manila-put-under-stricter-mecq-for-two-weeks/
<https://www.worldometers.info/coronavirus/country/philippines/>
https://public.flourish.studio/visualisation/1882256/?utm_source=showcase&utm_campaign=visualisation/1882256
<https://www.bloomberg.com/news/articles/2020-08-06/philippines-passes-indonesia-as-worst-southeast-asia-outbreak>
<https://psa.gov.ph/national-accounts>
<https://www.bloomberg.com/news/articles/2020-08-06/philippine-economy-plunges-into-recession-as-gdp-contracts-16-5>
<https://opinion.inquirer.net/132505/16-5-percent-gdp-drop-what-went-wrong>
<https://rappler.com/business/philippines-needs-spend-big-recover-recession-but-will-it>
<https://rappler.com/nation/senate-passes-bayanihan-2-bill-coronavirus-pandemic-response>
<https://www.bloomberg.com/news/articles/2020-08-12/philippines-set-to-begin-clinical-trials-for-japan-s-virus-drug>