



Market Update

Second Issue: May 2019

Trade tensions between US and China continue to mount. The two superpowers have been exchanging blows, such as higher charge for traded goods (tariffs) and the banning of certain companies (like Huawei) from access to markets. With neither US President Donald Trump or Chinese President Xi Jinping willing to back down, US-China trade tensions could go on longer and heat up.



The market is uncomfortable with this uncertainty, and equities will likely be compromised if this trade war continues. Now is the best time to review and reassess your investment portfolio.

Equity prices come mostly from the change in stock prices. Current dividend yield is only at around 1.6%. If held for a long period (more than 7 years), the price change is mostly from the increase in the underlying companies' value as their earnings grow. However, in the short run, equity prices will reflect the current collective mood of the market.

Equity Fund

Dividends

Price Change

Fixed Income Fund

Coupons

Price Change

Inflation Expectations







If creditors think that inflation is increasing then they will ask for higher yields to compensate for the loss in purchasing power – this will result into lower prices for bonds. On the other hand, if inflation is expected to decline, bond prices may increase. Coming from high inflation in 2018 going as high as 6.7%, consensus forecast until 2021 is that Philippine inflation will remain manageable at 3.1% to 3.4%.

Ability to Repay Debt



If creditors think that there is higher risk that the borrower won't be able to pay – this will result into lower prices for bonds. If the borrower has better chances of paying back their debt, bond prices may increase. S&P Global Ratings, a leading credit rating agency raised the Philippines' credit rating last April 2019 from 'BBB' to its highest rating of 'BBB+' as they see above-average economic growth, healthy external position, and sustainable public finances.

Below are the AXA bond funds to help you diversify your portfolio.

FUND TYPE	DESCRIPTION	SUITABLE FOR
 Philippine Wealth Bond Fund	A Peso bond fund invested in a diversified mix of Philippine government bonds.	Conservative investors or those looking to diversify their equity-heavy portfolio.
 3GX 2026*	A limited offer peso fund that aims to provide 100% guarantee of the invested amount if held until May 2026. It is composed of mostly Philippine government bonds.	Conservative investors or those looking to diversify their equity-heavy portfolio.
 Premium Bond Fund	This is a diversified mix of US Dollar-denominated Philippine government bonds.	Conservative investors or those seeking diversity not just across asset classes but even currency.
 Global Dynamic Allocation Fund- Stable	Globally diversified mix of bonds invested across the globe. Applies a volatility control that could likely lower downside risk but may lag during periods of strong market rallies.	Conservative investors or equity-heavy investors that are seeking to diversify across asset classes, geographic locations and currency.

For further information about our fixed income funds, visit <https://axa.com.ph/fund-prices> and select Bond Funds PHP and Bond Funds USD from the “Category” dropdown menu.

Sources:

<https://global.pimco.com/en-gbl/resources/education/everything-you-need-to-know-about-bonds>

<https://www.schroders.com/en/us/private-investor/insights/equities/what-has-driven-stockmarket-returns-and-what-will-drive-them-in-future/>

<https://www.china-briefing.com/news/the-us-china-trade-war-a-timeline/>

<https://www.cnbc.com/2019/06/09/china-may-restrict-tech-access-in-spiraling-trade-war-with-us.html>

<https://www.cbc.ca/news/business/china-us-trade-interference-travel-ban-1.5161286>

S&P Global Ratings is one of the world's leading provider of credit ratings. A credit rating upgrade is a vote of confidence of our country's strong ability to pay debt. At BBB+, the Philippines enjoy the same rating as Thailand while overtaking India and Indonesia that are at BBB-.