Monthly Market Update

Fourth Issue:
February 2020

Fresh from a strong 2019 for the U.S market, what is coming next to deliver growth this 2020?

Global view for the year

We started 2019 with fears of a possible recession due to a slowdown in the economy. These fears were made worse by the trade war between the U.S. and China. In spite of this, it was also the year the U.S. S&P 500 Index, one of the most followed equity indices, gained a whopping 29%.

Let's look back at factors that provided significant boost to the 2019 growth in the U.S. market:

- The U.S. Federal Reserve cut rates for a total of 0.75% to bring down interest rate to 1.75% from 2.50%. Lower interest rates encourage borrowing and investing and stimulate economic growth.
- Many central banks across the world applied a similar strategy, which enabled continuous growth.

What can we expect to deliver growth this 2020?

Central Bank support to continue

The U.S. Federal Reserve intends to keep interest rates at its current low level.

- This would allow growth to continue for the year.
- Should the U.S. experience a lag in their growth, the Fed will practice monetary easing, where the central bank lowers interest rates, to provide a boost to this.

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.

- BSP is looking to cut rates by around 0.50% throughout 2020, as announced by BSP Governor Diokno. The first cut rate of 0.25% will possibly come this first quarter.
- Government spending for the Build, Build, Build program and the Corporate Income Tax cut are expected to provide a boost to PH growth.

Recent global headlines

The U.S. and China have signed phase one of a trade deal.

Last January 16, the U.S. and China signed 'phase one' of a trade deal that seeks to put an end to their year-long trade war.

Here are the important points to note on 'phase one':

- It is still incomplete. Approximately $370 million worth of Chinese goods still have tariffs in place.
- It gives a **renewed positive outlook** that moving forward, the U.S. and China could come to agreement on more deals.
- We are mainly **looking towards supportive monetary policy to deliver the U.S. growth for this year**.

Specifics of the deal

1. China to purchase $200 billion worth of U.S. goods and services for the next two years
2. U.S. to cut tariffs on Chinese products from 15% to 7.5%

The Coronavirus pandemic

The Coronavirus disease 2019 (COVID-19) is spreading across the world, causing disruption, severe illness, and even death. As of February 16, here are the numbers according to the World Health Organization (WHO):

- 51,857 total confirmed cases of COVID-19;
- 25 countries affected;
- 1,669 deaths, with only 3 deaths occurring outside China (Philippines, Japan, France)

With the fear spreading along with the virus, we ask, what does this mean for the economy? In order to gauge the potential impact of the Coronavirus, we look at what happened during the SARS outbreak.

The speed of containing the outbreak is key to minimizing its negative effect on the economy.

- COVID-19 has spread faster than SARS did. It may cause China's economic growth to continue slowing down.
- This time, the decline might be mainly caused by travel bans that will hinder tourism, companies scaling back on operations, and lower activity which might lead to lower consumption.

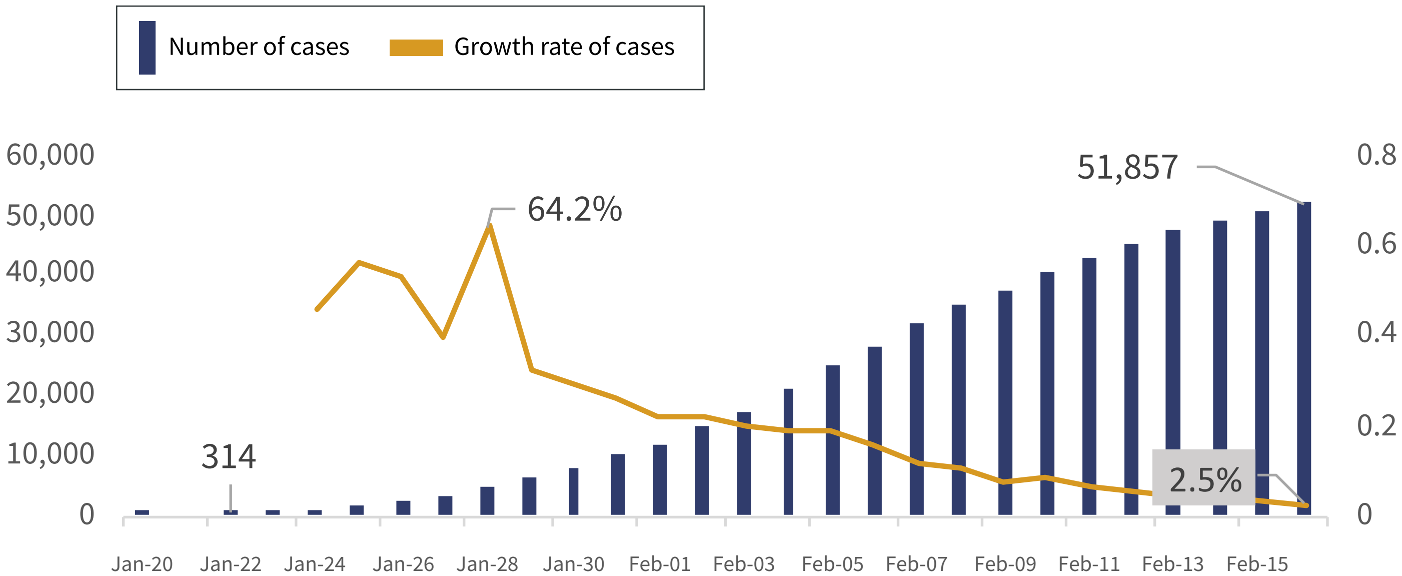
The fatality rate of COVID-19 is around 2% which is significantly lower than previous epidemics (SARS - 9.6%, MERS - 34.4%, Ebola - 40.4%).

- Chinese officials have acted much quicker in preventing a large-scale outbreak.
- When SARS hit, it took China 88 days to notify the World Health Organization (WHO), whereas the world found out about COVID-19 within the same month.

SARS was estimated to have impacted China's GDP negatively by 1%. A 1% decline in China GDP has an estimated impact of 0.2% decline for the Philippines.

Fortunately, the growth rate of the epidemic has steadily declined since January 28.

In previous epidemic, it's a good sign that the outbreak is being contained well once the growth rate of infected slows down.



In the short term, negative sentiments have caused a decline in Asian markets, including the Philippine Stock Exchange Index. **However, in the long term, with supportive monetary policy still in place, a bounce back is likely**.

Overall, if China experiences a large enough lag in economic growth, the Chinese central bank will ease, if needed, in order to meet 6% growth target for 2020.

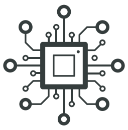
Funds that we recommend

Given that the effect of the COVID-19 is largely still in China, we would recommend limiting your exposure to Asia Growth Fund for now. The following are the global funds that we recommend to capture any positive growth coming from the U.S.-China trade deal which may benefit global trade.

- If you are already invested in the Global Advantage Fund (GAF), we recommend holding onto this investment since the technology sector seems to keep growing, as these companies continuously innovate and develop their products and services. You may also take out a small portion of your gains and move them into more defensive assets (i.e. cash) if you wish.

- If you are just about to start with your investment, we recommend Global Dynamic Allocation Fund – Multi Asset (GDAF – MA) for now so you would have access to a diversified fund in the meantime, then you may consider more equities later on.

Global Advantage Fund



A NASDAQ 100-themed fund that **invests in U.S. tech giants** and their innovations capitalizing on the continued growth potential of these companies.

Global Dynamic Allocation Fund – Multi Asset

A fund that minimizes the risk in your investment through a **volatility controlled strategy**. It is diversified globally and across equities, and bonds.

Worry less on the present market and focus on your long term investment goals. Talk to your financial advisor to know more.

Sources:
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