



Trendspotting

Year end 2019
January 2020

Last year has been a promising year for the Philippine economy. And as we kick-off the new year, let us take a quick look at what transpired back in 2019 and learn how we can best manage our finances moving forward.

How well did the PH economy perform in 2019?

PH economy continuously grew positively amidst the US-China Trade war affecting the global economy, and this can be attributed to the following:



Anti-war central bank actions

Despite the tension between US and China, the Bangko Sentral ng Pilipinas (BSP) continues to dictate lower interest rates for lending, allowing for more spending in the economy.

BSP also made three (3) policy rate cuts in 2019, totaling to 0.75%.



Catch-up in GDP growth

While delay in approval of national budget slowed down GDP growth for 1H 2019, there was a significant catch-up in Q3 with a 6.2% growth.

It was also during Q3 that the government was able to compensate and increase their spending.



Easing inflation

There has been a steady decline in inflation rate since end of 2018. In fact, the 0.8% noted last October 2019 has been the lowest rate since May 2016.

As the inflation rate continue to decline, it allows for healthier growth and making it cheaper for the Filipino consumer to spend on goods.

PH economy is at the recovery phase, with the Philippine Stock Exchange Index (PSEi) bouncing from a sizable dip in 2018.



Coming from these, what can we expect for 2020?

2020 Outlook

Short term Philippine equities are the way to go, given the following signals:



Government catch-up on infrastructure spending

- The **2020 national budget of P4.1 trillion was passed by Congress** on December 2019, paving the way for its enactment before the new year begins.
- With the DPWH receiving a hefty P534.3 billion budget this year, **infrastructure spending could significantly help bolster the PH economy throughout 2020.**



Further rate cuts in 2020 by the BSP

- There are expectations that the **BSP will continue to cut interest rates throughout 2020**, as they have generally been transparent with their plans.
- Given that we are seeing very healthy levels of inflation, experts from ING Bank say the **BSP has room to cut the interest rate by another 0.5% next year.**



Possible Corporate Income Tax Cut

- Philippine **Congress has approved the Corporate Income Tax and Incentives Reform Act (CITIRA bill)**, wherein **corporations will be taxed 20% instead of 30%.**
- Expectation is that this income tax cut will **attract investments, create more jobs, and boost corporate earnings.** Thus translating to **higher valuations of these corporations** in the stock market and making equities more attractive investment option.

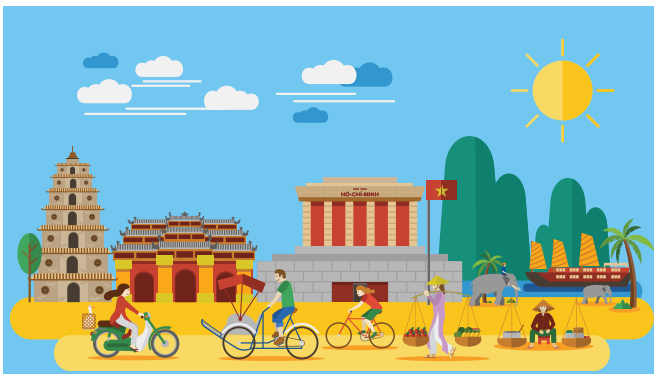
What is your next move in 2020?

2018's fears of a global economic slowdown still rings true today, as a few major economies including Germany, the US, and China, have experienced this. Various experts and economists have projected generally lower returns in the coming years compared to that of the previous decade.

Investing in the equities market for next year is still not without some risks

Given our country's young demography, and the nature of our economy being consumption-driven, we can be hopeful of a future for the Philippines wherein we see consistent significant growth.

Let's take a look at a success story from a neighboring country that has made the most of their similar situation in the past. And we see this as a potential possibility for the Philippines.



Back in the early 2000s, Vietnam had a similar story with the Philippines. 32% of their population was aged 14 or younger. They also had a big push in infrastructure spending (about 8-11% of their GDP) very similar to the PH's Build, Build, Build initiative.

The combination of the young population and infrastructure spending, led **Vietnam to new heights:**



More than 45M people were lifted out of poverty



Ave. GDP Growth of 6.5%



Vietnam, Ho Chi Minh Stock Index: 15.6% per year

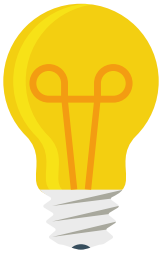
2000 to 2018

2000 to Present

2000 to Present

Funds that we recommend

Local funds



Wealth Balanced Fund

With a possible corporate income tax cut and cheaper valuations of the Philippine Stock Exchange Index (PSEi), Philippine corporations look to have good earnings growth potential. The PSEi is currently trading at 16.83 times which is lower than the 10-year average of 18.83 times. This lower valuation can be seen as an opportunity to enter the market at a cheaper price.

Moreover, the BSP has given signs that they are willing to accommodate economic activity by cutting interest rates this year, which increases attractiveness for bond exposure in the portfolio. To capitalize on these factors, we recommend AXA's Wealth Balanced Fund, which invests in the **top 30 corporations in the Philippines, as well as PH Government Bonds**.

Key Holdings:

PH Government Bonds, Ayala Land Inc., SM Prime Holdings

Sources:

PSEi Growth Bloomberg Terminal BSP Monetary Policy <http://www.bsp.gov.ph/monetary/monetary.asp>

PH GDP <https://psa.gov.ph/nap-press-release>

PH Inflation [https://psa.gov.ph/price-indices/cpi-ir/title/Summary%20Inflation%20Report %20Consumer%20Price%20Index%20%282012%3D100%29%3A%20October%202019](https://psa.gov.ph/price-indices/cpi-ir/title/Summary%20Inflation%20Report%20Consumer%20Price%20Index%20%282012%3D100%29%3A%20October%202019)

ING Expectation for Monetary Policy <https://news.abs-cbn.com/business/12/05/19/well-behaved-inflation-to-stay-within-bsp-target-in-2020-ing-bank>

PH National Budget Approval <https://www.bworldonline.com/congress-targets-ratification-of-2020-budget-next-week/>

Ph national budget approved <https://www.rappler.com/nation/247009-congress-passes-2020-national-budget>

CITIRA Bill Approval <https://www.reuters.com/article/us-philippines-economy-taxes/philippine-lawmakers-approve-corporate-tax-cuts-idUSKCN1VY0XZ>

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