Trendspotting

Q2 2020

In the beginning of the year, our outlook for Philippine equities was looking up, given the following expectations:

- Government catch-up on infrastructure spending to stimulate economic growth
- Further interest rate cuts by the Bangko Sentral ng Pilipinas (BSP) to allow for easier lending which promotes company growth
- Possible corporate income tax cut to help increase company earnings

However, the COVID-19 pandemic has presented countries around the world with new challenges. Aside from the loss of lives and the struggle of health care systems, the pandemic also brought about economic problems. Global markets have eroded as countries suffer from lower economic activity and massive unemployment.

As Q2 2020 comes to a close, let's take a look at where we may be headed for the rest of the year.

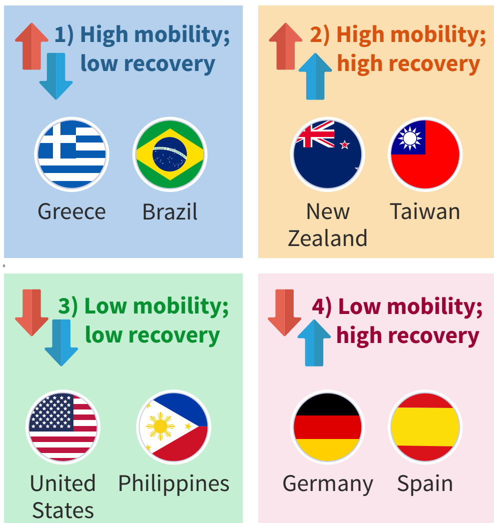
What would the road to recovery look like?

In the recent Market Update, we discussed how lockdown measures implemented in most countries greatly affected businesses and caused a global economic slowdown and massive unemployment. Now that lockdowns across the globe are easing and we have begun a general community quarantine (GCQ) in Metro Manila, we seek to answer the question: What would a potential road to recovery look like?

How we're reopening the economy

The Visual Capitalist, a media agency focused on tech, investing, and the economy, depicted how different countries are reopening their economies through two measures: mobility rate and recovery rate. Mobility rate shows the level of people's activity compared to their pre-crisis activity (i.e. workplace, shopping). This provides a good picture of the current economic activity. The recovery rate refers to the percentage of recovered COVID-19 cases against total active cases, which tells us how well the virus is being contained.

Based on these, we see that countries are adopting varying strategies in reopening their economy. Countries in Group 1 are allowing activity again despite relatively low recovery rates. Those in Group 2 are lifting restrictions already as containment responses have been successful for achieving high recovery. Those in Group 4 are playing it safe by choosing to hold off the reopening of their economy despite high recovery rates.



As of May 29, 2020, before GCQ in PH and nationwide protests in the U.S.

For Group 3, where Philippines is included, people are still staying indoors while their governments work on containing the virus. For the Philippines, the lack of mass testing has caused challenges both in the recovery and containment of the virus. With the implementation of GCQ in most areas in the country, increased mobility may contribute to a spike in COVID-19 cases.

Government response to support the economy

Due to the economic stress caused by the pandemic, government policies are key, along with containing the virus, to our road to recovery. Below is how the Philippine government has responded so far:

The House has approved the P1.3 trillion package to provide relief in the midst of the pandemic, with P700 billion to be deployed this year. The package will cover wage subsidies to affected workers, including overseas Filipino workers (OFWs). It will also support businesses by funding heavily impacted sectors (i.e. transportation, tourism, MSMEs) while also providing loans.

BSP has cut interest rates by a total of 1.25% throughout the year to bring it down to 2.75%. This move has provided support for individuals and businesses seeking loans. Experts expect a further 0.25% cut in the coming months.

A bill has been passed for a P1.5 trillion stimulus package that will fund infrastructure projects in tranches of P500 billion a year for the next three years. The package will finance projects in the five sectors heavily affected by the pandemic such as health, education, agriculture, local roads, and livelihood. These projects will also help generate numerous jobs and alleviate unemployment. If approved, this will take effect next year.

However, it is important to note that even as we've started easing lockdown guidelines, we still have to be cautious with the effect of this shift in the economy. We have not experienced the full ramifications of the strict and extended lockdowns we had the past months. It is a possibility that the recovery would be a gradual one.

With that said, let us now tackle how we can go about our investments.

Our recommendation

Equity markets were propelled mostly by positive investor sentiment last May 2020. The markets have reflected the investors' excitement regarding numerous countries and economies opening from their lockdowns.

Due to the pandemic, only the monetary policy rate cuts came into fruition from our outlook for the year. However, unlike previously projected, these rate cuts have acted more as economic relief rather than a promoter for growth. Government catch-up on infrastructure has also been put on hold. And while a corporate income tax cut could still happen, it would be more for relief, as well.

Right now, we think it's best to invest in bonds. The following are the factors contributing to why we see this as the safer investment option:

Accommodative monetary policy by the BSP

As mentioned earlier, numerous countries' central banks, including the BSP, have adopted an 'accommodative monetary policy' which entails lower interest rates for borrowing. These lower rates make for higher bond yields.

Low inflation expectations

Due to an overall decrease in demand in the economy, inflation is expected to be low in the coming months. Usually, high inflation is not good for bonds since you are getting the bond at the end of the term, when prices tend to be higher. Thus, lower inflation would make these bond yields more attractive.

We recommend topping up on your account value. You may allocate **50% of your top-ups to bonds**, so you can take advantage of the factors mentioned, while **the remaining 50% of your top-ups may be invested in 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 Global Dynamic Allocation Fund (GDAF) – Stable or Premium Bond Fund**. For your equities top-up, we encourage you stick with the current equity fund you are invested in.

Having a diversified asset allocation, as recommended, is built for investing long term. Having an allocation to equities strengthens the long-term growth of your portfolio while bonds cushion market volatility.

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

Sources
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