Trend Spotting

Your quarterly market digest brought to you by AXA.

Dear valued customer,

We are pleased to share with you the latest issue of *Trend Spotting*, your source of market news and forecasts from AXA. Because you are a valued customer, we would like to help you understand the financial market and how it affects your investments with us. As we head into the fourth quarter, let us go over the economic cycle. Understanding the cyclical nature of the economy could help us identify the differences between each phase, so that we are guided in strategizing our investments accordingly. As a guide, we will also share a framework that aids in pinpointing the current phase of the economy.

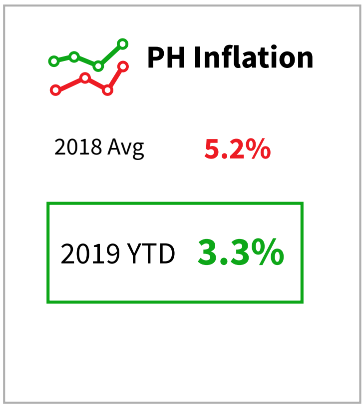
But first, let us go over the current state of the economy in the Philippines.

How is the Philippine economy doing?

Economy is measured specifically by two key indicators - Gross Domestic Product (GDP) Growth Rate and Inflation Rate. **GDP** or **Economic Growth**, shows how much the country's GDP increases over a period and measures an economy's level of spending– which is the monetary value of all spending made by the entire country. **Inflation**, on the other hand, is the rate of increase in the prices of goods and services available in the economy over a period.

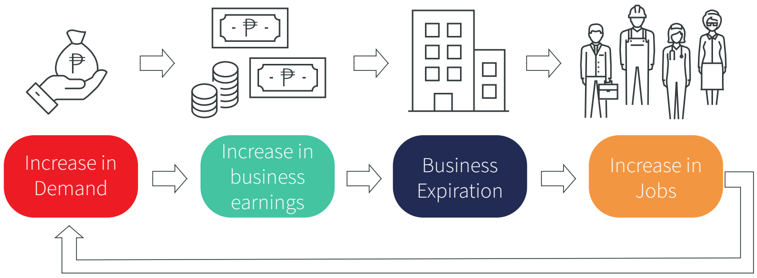
In the **Philippines**, GDP/economic growth is at 5.5% for Q2 2019, which is one of the highest compared to other Asian entities and higher than the country's 5.2% average for the last 30 years.

Inflation, so far, is at 3.3% which is significantly lower than the 2018 average rate and within Bangko Sentral ng Pilipinas' (BSP) target of 2-4%.



With a high economic growth and low level of inflation, we can say that the Philippine economy is at the Recovery Phase.

What happens during the Recovery Phase?



Consumer's ability to spend more increases – When GDP/economic growth is high, people want more of what businesses have to offer.

Businesses expand – To keep up with consumer demand, companies/businesses build more factories/stores and hire more employees, among other strategies.

Jobs increase – Business expansion leads to increase in demand for manpower.

Demand increases – With more money going around in the economy, people's ability to spend for more goods increases. Thus, creating more demand.

Given that the economy behaves in a cycle, even at the Recovery Phase, we cannot expect GDP to grow continuously.

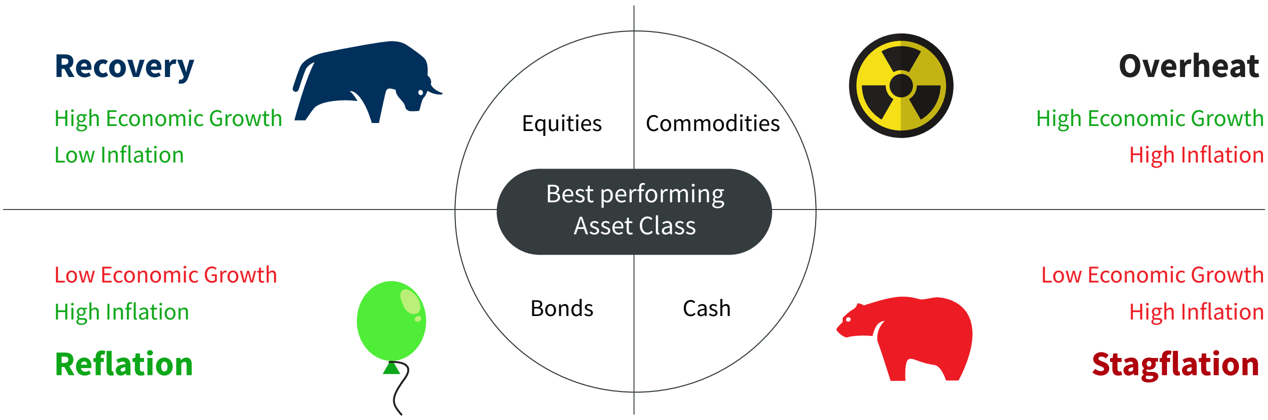
During the Recovery Phase, people expect to be in a healthy growing economy. Thus, there is more incentive to borrow money for purchases. Business also take out debts in order to facilitate expansion. With this, debt levels may rise faster than earnings and comes to a point where these debt levels become unsustainable and the economy suffers a setback, typically in the form of a **recession**.

Another possibility is that **inflation may also go up too soon**. The rapid increase in prices of goods and services make it difficult for business and consumers to spend, effectively slowing down economic activity.

Once economic growth is already at risk, central banks would typically step in to intervene. They lower interest rates as lower borrowing costs would encourage spending and we **go back to the start of the cycle again**.

How do we know we are in the Recovery Phase of the cycle?

The **Investment Clock** is a framework used to explain the economic cycle. It determines the state of the economy and how to invest during various phases. This framework follows the movement of two main economic factors: **GDP/Economic Growth** and **Inflation.**



Recovery Phase

The economy starts to pick up, with improving employment and sustainable growth over a period of time.

Reflation Phase

Preceded by a recession, this is a period with little to no growth wherein goods and services are priced cheaply.

Overheat Phase

Goods and services become very expensive and maintaining the same standard of living starts to become difficult.

Stagflation Phase

A difficult time in the economic cycle, companies need to lay off workers because of how expensive goods get.

How do we maximize our investments during the Recovery Phase?

During this phase, we can say that EQUITIES should be prioritized, given that:

Central banks lowering interest
making it less costly to borrow money to continue the growth of the economy

Earnings per share grew by 8.6%
of the Philippine Stock Exchange Index for Q2 2019 compared to the previous year

FUND RECOMMENDATIONS

Based on all this, our recommendations for you are two-fold: Short-to-Medium Term (1-2 years) and Long Term (3 or more years).

Short-to-Medium Term
Since we are in the recovery phase, one central theme is the lowering of interest rates by central banks around the world (PH, US, Europe, Asia), which makes it easier or cheaper to borrow money from banks. The lower rates will provide the tendency for bond prices to rise while also providing boost to economic activity by incentivizing spending. The **Wealth Balanced Fund**, has exposure to both Philippine government bonds and equities, and will be taking advantage of this environment.

Long Term
The Philippine economy is largely driven by consumer products and services. We have a young workforce, and 32 million Filipinos are currently aged 14 or below, which tells us that this consumption will be sustained well into the future. We recommend the **Wealth Equity Fund** which has a broad exposure to the Philippine economy.

"Philippine GDP expected to grow by 6.4% in 2019 and 2020." - Asian Development Bank, 2019

Talk to your financial advisor to know more.

Sources
1. *Greetham, Trevor, and Hartnett, Michael. 2003. "The Investment Clock". Merill Lynch.*
2. *"Philippines: Economy". 2019. Asian Development Bank. https://www.adb.org/countries/philippines/economy*
3. *"Summary Inflation Report Consumer Price Index". 2019. Philippine Statistics Authority. https://psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-june-2019*

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