

## LISTED EQUITY PORTFOLIO

### Fund Management Review & Outlook for the Philippines

#### Market Review

The market posted a strong rebound in March to close 7.7% higher at 4,055.14 after two consecutive months of decline which saw foreign investors exit emerging markets. Although concerns on the on-going geopolitical tensions in MENA and the nuclear crisis following the earthquake and tsunami that hit Japan persisted, the market rallied following the announcement of PLDT's acquisition of Digitel near month-end. Average trading volume also improved to U\$105 mn in March, from U\$87 mn in February, while foreigners recorded a net buying position of U\$29mn, a reversal of the U\$80 mn net selling recorded in February.

#### Economic News

OFW remittances in January continued to increase, albeit at a slower rate of 7.6% (+8.2% growth for full year 2010) to U\$1.48 bn, which prompted the BSP to review its full year 8% growth forecast given the developments in MENA and Japan. Meanwhile, February inflation further accelerated to 4.3% from 3.5% in January, and is now expected to average near 5% for the full year. Thus, the 25 bps increase in policy rates announced by the BSP last March 24<sup>th</sup> in order to curb rising inflation, which was widely anticipated, was positively accepted by the market. The government also announced that the country recorded a P314 bn budget deficit for the full year of 2010, which was equivalent to 3.7% of GDP, and a P13.4 bn surplus for the month of January partly due to improved tax collections.

#### Corporate News

The announced acquisition of Digitel by PLDT (+16% MoM), which is seen to improve sector margins on the back of a more rational pricing environment, mainly sparked the market's rally in March. This transaction also led JG Summit (+25% MoM), which will receive a 13% stake in PLDT following the share swap, and Globe (+13% MoM) to close higher. Banking stocks likewise fared well in March led by PNB (+26% MoM) on renewed speculation that it may be a possible acquisition target, while Metrobank (+12% MoM), BDO (+11% MoM), and Security Bank (+10% MoM) also posted double-digit gains. Other index movers included Jollibee (+28% MoM), Ayala Corp. (+16% MoM), SM Investments (+13% MoM) and SM Prime (+11% MoM), a reversal of the declines posted in the last two consecutive months.

#### Outlook

We expect the market to continue in its consolidation phase, but with a more upward bias, as fears of rising inflation have been largely discounted. The return of foreign funds in emerging markets, if sustained, could see the market firming up further.

Index	28 Feb 2011	31 March 2011	% Change
Philippine Stock Exchange	3,766.73	4,055.14	+7.65%

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