

Answers to Frequently Asked Questions “FAQs” on the current state of the Philippine Equity Market – PART 2

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1. The market did recover last December but had so far started off 2011 in the red. What are your thoughts?

Answer:

We did mention in our last Market Watch that inflation in Asia would definitely contribute to the continuing consolidation of the market. The upward pressures on oil and food prices would likely pull up inflation rate by a 100-150 basis points. However, the continuing strategy of buying on weakness presents good opportunities for investors.

2. Is Inflation now a concern for the Philippines?

Answer:

We would think it would certainly be a dominating theme for the next few months. However, we actually welcomed the recent pressures on inflation as long-term positive.

3. Why would recent inflation trends be long-term positive?

Answer:

As the government is pushing infrastructure spending through PPP, we believe that the one thing to encourage investors (local and foreign alike) in investing in infrastructure related projects is to prove that prices do go up and subsidies have to be reduced for companies to turn in a profit. Consumers will eventually get used to the inflation but definitely short-term sacrifices have to be made.

4. There are also talks about a lot of capital raising? Is that a negative for the market?

Answer:

This is a definite negative for the market. We are monitoring this very closely as there are about 8 to 9 companies slated to raise money via the equities market. However, we believe that only a few companies on this list would probably push through as the Philippine market is not deep enough for all of these firms to do their respective capital raising.

5. But The US economy is supposedly improving?

Answer:

There had been generally better news on the economic front in the US. Retail Sales during the Christmas season was better than expected; but we think it is too early to celebrate an immediate US recovery, as we think there might be some pent-up demand for some durable goods brought about by the consumers holding off the purchases in the last few years. The US unemployment rate had fallen a bit to 9.4% from 9.8%. However, it is still far from the ideal level of unemployment that the US is comfortable at which is around 3-4%. Also, jobless claims are still climbing as of late.

MAIN STRATEGY:

Keep staying on course as we are not on a sprint race but it is looking more like a marathon.

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