

January 2009 Review and Near Term Outlook

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January closed with the Bangko Sentral ng Pilipinas (BSP) reducing its overnight deposits rate from 5.5% to 5.0%, marking the second reduction in six weeks' time, to help shield the local economy from the looming global recession. Although this move weakened the Peso somewhat, the currency still advanced 0.3% for the entire month of January, making it the sole gainer among the 10 most-traded regional currencies (excluding the Yen), according to BSP.

Philippine GDP grew 4.5% YoY in the last quarter of 2008, settling at the top of the range of analysts' estimates, and easily exceeding many economists' expectations. Unlike in previous periods, when growth was broad-based, 4Q08 growth was spurred mainly by consumption, thus begging the question of whether this can be sustained throughout 2009. Worth noting is the wide range in analysts' 2009 GDP forecasts: from 0.7% to 4.5%. We are optimistic 4.5% can be attained, supported by resilient remittances from overseas Filipinos, whose skill sets are competitive advantages amid the worldwide downturn. We also see getting GDP boosted by easing inflation. In line with many economists' predictions, January inflation stood at 7.1%, lower than December 2008's 8%, and at the lower end of the BSP's previous forecast range of 7% to 7.9%. Subsiding inflation should remain one of the key drivers of growth for this year, encouraging both businesses and consumers to spend more.

Throughout Asia, stocks moved up in late January, with banks at the helm, as other countries have stepped up efforts to revive credit markets and economic growth. As the month came to a close, the MSCI Asia Pacific Index climbed 3.5% to 82.12, reversing its recent lows. However, that benchmark lost 7% since the beginning of the year, all told.

U.S. stocks fell for the fourth straight week on the heels of disappointing earnings disclosures, making for the longest losing streak since July. The S&P 500 Index fell a total of 8.6% to 825.88 in January, while the DJIA dropped 8.8% for the month to 8,000.86. Earlier, Bloomberg had noted some optimism about lower interest rates and increased government spending, particularly for the purpose of buying impaired bank assets. But in the absence of any real progress on bank rescues, shares of Citigroup and Bank of America lost nearly half of their value in January. With the slide in U.S. equities, plus with various central banks starting to print more money, investors have shifted into precious metals. Gold futures for April delivery rose 5% in January to US\$ 928.40 / ounce

The U.S. economy shrank 3.8% in 4Q08 – the most since 1982 – as consumer spending saw its worst slide of the postwar era, indicating that the problems that began in the housing and financial sector have now spread to nearly all parts of the economy. With this in mind, the U.S. Congress is considering a package of tax cuts and spending programs of about \$900 billion, this on top of the Bush bank bailout program.

On the NYMEX, crude oil for March delivery fell 10% to US\$ 41.68 / bbl in the last week of January, as the U.S. Energy Department announced that nationwide crude inventories have hit 339 million bbl, the highest level since August 2007. This buildup in oil stocks seems to have neutralized OPEC's 9% cut in supply targets announced in December and implemented on January 1st. However, further reductions in OPEC output remain a very real prospect.

Amidst this month of volatility on the global economic scene, your funds have held up well. The ATR KimEng Equity Opportunity Fund has mostly stayed at par with the local bourse, finishing January with a NAVps of PHP 1.2523, or down 2.54% YTD, matching the PSEi's decline of 2.55% YTD. The Kabuhayan Fund remained better shielded, as it closed the month with a PHP 0.9165 NAVps, or down 1.18% YTD. The MFMCP-Aizawa Trust Philippine Fund ended at US\$ 49.69, down 1.19% YTD, and helped by the slight appreciation in the Peso.

As noted above, the PSEi shed 2.55% in January, markedly less than the MSCI Asia Pacific and U.S. indices. However, local stock market trading volume has significantly diminished, from an average daily turnover of US\$ 125 million in 2007 to US\$ 25 million recently, as foreign investors have mostly stayed on the sidelines. As many economists anticipate a modest recovery to begin in the latter half of 2009, we see an opportunity to start building positions in oversold equities with single-digit P/E ratios, or P/BV ratios below 1.0x, and double-digit EPS growth. In addition, many issues' dividend yields currently lie within a 7% - 10% range, and therefore look more attractive than many fixed-income placements. Although your funds' investment selection has always been prudent and defensive in nature, there definitely will not be any difficulty finding shares with attractive valuations