

July 2009 Review and Near-Term Outlook

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Although the American economy contracted by 1% in the second quarter of this year (2Q09), this performance was not as bad as the 1.5% fall anticipated by prominent economists. Moreover, top U.S. government officials think that a 2.5% rebound could materialize in 3Q09.

Thanks to this, and also to better-than-predicted U.S. corporate earnings announcements, the Dow Jones Industrial Average (DJIA) rose by 8.6% in July to 9,171.61, posting the best month-on-month (MoM) growth rate since October 2002, and reversing the decline witnessed in June. For the first seven months of the year (YTD), the DJIA was up 4.5%. Meanwhile, the S&P 500 Index advanced by 0.8% to 987.48 during July, its fifth consecutive month of advances;

this index's YTD increase was 9.3%. Note that the S&P 500 closed July 46% above a 12-year trough touched only as recently as last March.

In response to the positive U.S. GDP news, oil surged towards the end of the month, after dropping halfway through July. Following a brief dip, crude oil for September delivery recovered to US\$ 69.45 / bbl, roughly matching its end-June price. But despite the specter of energy inflation, the view that the worst of the U.S. recession could now well be behind us lifted the MSCI Asia Pacific Index by 8.4% to 112.59 by end-July, producing a similar five-month streak of index gains.

The Philippine Stock Exchange Index (PSEi) grew further in July to 2,798.33, or 15% MoM, and almost 50% YTD. The month-end PSEi level is already well beyond most analysts' short-term targets.

The Philippine Peso's volatility has been muted. The currency closed July at PHP 48.10 / US\$, slightly stronger than the end-June level of PHP 48.12 / US\$, and yet not much better than its weakest intra-month level of PHP 48.23 / US\$.

Inflation continued easing, touching a 22-year low of 0.2% for July. Interestingly, consumer prices had spiked during 3Q08, reaching double digit inflation rates. Analysts now predict that inflation will be roughly nil in 3Q09, and inch up thereafter.

All your funds performed well in July. The ATR KimEng Equity Opportunity Fund closed the month with a NAVps of PHP 1.6804, up 6.8% MoM and 30.7% YTD. The Kabuhayan Fund finished at PHP 1.1102, up 4.5% MoM and 19.8% YTD. The MFMCP-Aizawa Trust Philippine Fund ended at US\$ 64.57, rising 7.2% MoM and 28.4% YTD.

Despite our optimism about the global and local economies, we do recognize that the steep climb in share prices in recent months indicates a possible correction in the offing. Historically, August has been deemed the ghost month, when foreign fund managers sell their stocks and go on summer vacation. Furthermore, across the globe, stock market rallies may falter as chart formations show a lack of strength to support these prices. The PSEi's Relative Strength Index has breached the 80.0 level, signaling that the market is overbought.

From a fundamental standpoint, P/E ratios for the PSEi are now at about 13x to 14x, which happens to be the historical average range. We feel that prevailing prices already factor in mostly-positive 2Q09 earnings reports, which are due for release in August. As such, we have significantly lightened the equity holdings in all of your funds. In the coming weeks and through the end of 3Q09, we look to restore our equity weightings gradually, as market valuations ease.