

## May 2009 Review and Near-Term Outlook

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Optimism continued to influence financial markets in May, as investors began mapping a timetable for the recovery of the US and other major economies, and as interest rates tumbled to all-time lows. The S&P 500 climbed to 919.14, up 36% from a 12-year low touched last March 9th, and recouping the 25% it lost since the beginning of this year. Asian stocks likewise rose, with the MSCI Asia Pacific Index gaining 12%--marking this index's longest winning streak (three consecutive months' worth of advances) since Bear Stearns failed in March 2008. However, we remain cautious, as the rebound in share prices has been much faster than expected, even while the developed economies are still struggling.

Investors are betting that a faster-than-expected economic recovery will boost demand for fuel, metals and crops. Hence, commodities prices likewise rose, posting in May one of the biggest monthly rallies in recorded history. Crude oil climbed above US\$66 / bbl to a six-month high, and traders see this hitting US\$70 - US\$75 / bbl in the near-term, which the OPEC feels is the optimal range.

Locally, The National Economic Development Authority (NEDA) reported in late May that first quarter 2009 (1Q09) GDP shrank by 2.3% from the preceding quarter, one of the largest quarter-on-quarter contractions on record. Measured on a year-on-year (YoY) basis, GDP grew by only 0.4% in 1Q09. Although this was an unpleasant surprise for most economists, it is important to keep in mind that the Philippines is one of the fortunate countries still expected to realize positive growth this year.

Headline inflation in May fell further to a benign 3.3% YoY, confirming an easing of consumer prices from last year's levels. The Bangko Sentral ng Pilipinas maintained its inflation projection of 3.4% for the whole year, and hopes the figure could dip as low as 1% in 3Q09. With inflation becoming less of a concern, officials can now concentrate on stimulating the economy.

The Peso softened somewhat in reaction to the disappointing GDP report, but nonetheless strengthened by 2.1% for the month of May. The Philippine Stock Exchange Index (PSEi) was even less affected by this news, as it gained 12% during the month, thus joining the upward trajectory in the international equities markets. Closing the month at 2,389.31, the PSEi registered a strong 27.6% year-to-date (YTD) increase. Worth noting is the view that valuations of many key stocks remain fairly attractive.

The local market's gains have been reflected in your funds as well. The ATR KimEng Equity Opportunity Fund has broken through the PHP 1.50 / share threshold to settle at PHP 1.5362 / share at end-May, booking a YTD return of 19.6% and a month-on-month (MoM) return of 8.8%. The Kabuhayan Fund also climbed to PHP 1.0452 / share, up 12.7% YTD and up 5.2% MoM.

Although we believe in the Philippines' long-term fundamental prospects, we acknowledge the market's sharp run-up during the last 2 months. In fact, at around the 2,400 level, the PSEi is already above most analysts' year-end targets. Anticipating a consolidation at current levels, and perceiving that the Philippine market has been heavily overbought of late, we have begun to lighten up our equity holdings. Over the next month, we will adopt a cautious stance and try to lock in some portfolio gains.