



We cannot downgrade the Philippines to underweight because of the dearth of compelling alternatives. However, we fully share the increasing level of reservations expressed by head of DB Philippines Research and market guru, Rafael Garchitorena, based on the following factors:

- The Philippines is standing at a massive premium to its own history and relative to its own history against the GEM benchmark on a P/BV to ROE basis.
- There are indications that earnings growth may be starting to slip – Rafa points out that third quarter earnings were extremely disappointing at the aggregate level – the market is now paying 18 times for around 8% earnings growth.
- The supply demand balance for equities may start to deteriorate over 2014. The Philippines is along with Korea the biggest consensus overweight in GEM and so is especially vulnerable to potential redemption of GEM funds by retail and/or institutional investors. Meanwhile equity raising over 2014 is likely to continue at a similarly high level to 2013's record amount.