



The Philippines: the future is young

Notes from the road

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“In the Philippines, we are used to external shocks. The impact tends to be short-lived as the young dynamic population adapts.”

My recent visit to the Philippines was timely as the country, after being an investor’s darling for the past decade, has recently been one of the worst performing equity markets globally. Valuations have reached their lowest levels since the global financial crisis (GFC), and liquidity has dried up.

When I arrived in Manila, the usual 45-minute drive from the airport took only 15 minutes. Indeed, road traffic has dropped by 20% as prices at the pump have almost doubled since the beginning of the war in Iran. *“This is actually a good thing”* the CFO of the largest conglomerate in the country told me. *“In the Philippines, we are used to external shocks such as food and energy inflation. The impact tends to be short-lived as the young and dynamic population adapts easily and domestic consumption tends to resume quickly. We don’t rely on subsidies, and we adapt rapidly to new situations. After Covid, we were the quickest country to recover as domestic consumption drove a rapid rebound in growth.”*

It is true that over the last 15 years the country has grown rapidly. Increasing remittances from Filipinos working abroad in the service sector and sending money back home, and the rise of business process outsourcing (BPO), which employs over 1.8 million people¹, have been key growth drivers. This inflow of money has fuelled a consumption boom.

However, since last year, the Philippines has faced a number of headwinds. It began with one of the largest corruption scandals to ever hit the country. Contacts we spoke to mentioned up to USD10 billion stolen from infrastructure projects and going into the pockets of senior politicians. The scale was so immense that when the scandal was revealed, the high-end property sector came to a halt, highlighting the size of the fraud. No wonder that confidence has plummeted, unrest has risen and the political environment is uncertain, ahead of the 2028 presidential elections.

Furthermore, the BPO sector, which is responsible for 8% of the nation’s GDP², has been singled out as one of the biggest potential losers from AI’s broadening usage. So far there hasn’t been any evidence of a reduction in employment, but a potential fall would have a significant impact on the Filipino economy.

^{1,2} IBPAP (IT and Business Process Association of the Philippines).

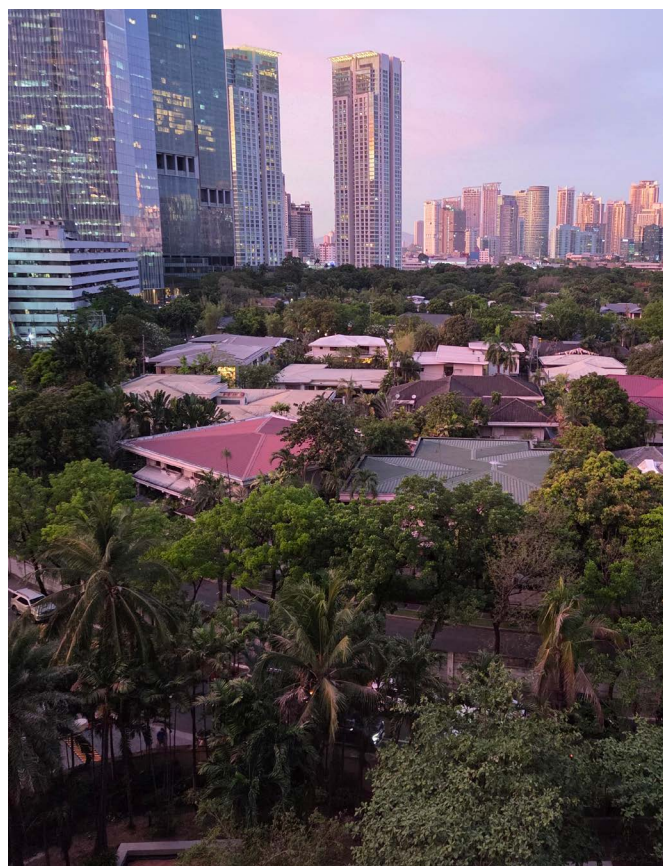
The final nail in the coffin has been the war in Iran, given the Philippines is highly dependent on energy imports from the Middle East. Inflation has already risen to 7.2% in April, up from 4.1% in March, with transport inflation adding 21.4% year-on-year. Given the government's preferred approach of adjusting demand to the new environment rather than cushioning the impact of the higher oil price, the central bank has had to raise interest rates in the short term. Rates were hiked to 4.5% at its March meeting, with more increases expected in the coming months. The move, although expected to be temporary, has triggered worsening sentiment in the country with the property sector (most notably residential), which was oversupplied, hit the hardest.

Unsurprisingly in this challenging environment, the stock market has struggled. With limited positive exposure to the AI theme, the Philippines has been one of the worst performing equity markets globally over the past year, with a flat USD return compared to 30% for the MSCI EM Index. This backdrop has exacerbated the low liquidity levels of the local equity market, now 40% lower than before Covid, making the market non investable for many global emerging markets fund managers. As a result, the stock market is now trading at a 40% discount to its long-term average and very close to GFC levels.

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Filipinos enjoying shopping the night away.



The Philippines' vibrant cities offer a charismatic blend of culture, history, and innovation.

Despite attractive long-term economic growth, one aspect of the Philippines we discussed frequently during my trip is how conservative businesses are.

The country is very underpenetrated in terms of financial services, for instance, with one of the lowest consumer debt-to-GDP levels in the world, at 13.6% compared to a global average of 57%³. Similarly, 40% of the retail sector is still informal⁴, despite large local groups having a strong presence in the country.

The Philippines is blessed with large reserves of commodities such as gold, nickel and copper, yet it is not even in the world's top 20 largest exporters, despite being the 5th largest in terms of reserves⁵. Only 3% of mineral potential land has been explored⁶. So why is this? Interestingly when talking to the heads of two of the largest conglomerates in the country and pressing them on why the Philippines seems to be so underdeveloped, they blame the political environment – frequent leadership changes and populist governments elected on themes such as crime rather than serious prospects of reforms. They also blame institutions, such as the central bank, the credit bureau and the stock exchange, for sub-par growth in the financial sector.

³ [IIF Global Debt Monitor \(iif.com\)](https://www.iif.com).

⁴ [How formal shapes informal \(sciencedirect.com\)](https://www.sciencedirect.com).

⁵ [Philippines critical minerals \(trade.gov\)](https://www.trade.gov).

⁶ Philippine Mines and Geosciences Bureau.

Speaking to country specialists we heard a completely different perspectives, where the conglomerates were actually made responsible for the issues. The belief is that as most of them are now in the second or third generation, they lack risk appetite. They don't "want to rock the boat". Why would they do when they are already successful and simply need to maintain leadership in their respective areas of activity. First-generation entrepreneurs seem to be more active, for instance, in the logistics sector.

As usual the truth is somewhere in the middle and both groups are right: the combination of much-needed reforms and a lack of innovation is keeping the Philippines from reaching its full potential.

As challenging as the backdrop appears, we see the current market weakness as an opportunity to add to our exposure, as the stock market seems oversold.

However, being long-term investors, our trip has also exposed the complacency of the large conglomerates, and we would expect significant disruption in several sectors in the medium term, most notably finance and retail. Opportunities will emerge in innovative companies, however it will be also important to identify losers unable to adapt quickly enough.

Finally, we will need to see increased appetite for equities and structural changes to incentivise retail and institutional investment in the local market, which is still very small in relation to the size of the country.

With 117 million people the Philippines, it is the 12th largest country in the world, and has one of the youngest populations with an average age of 26.8 years⁷. The country faces many challenges ahead but this young vibrant population will create opportunities in the coming decades.

⁷ [Philippines Median Age & Demographics: 1960-2026.](#)

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