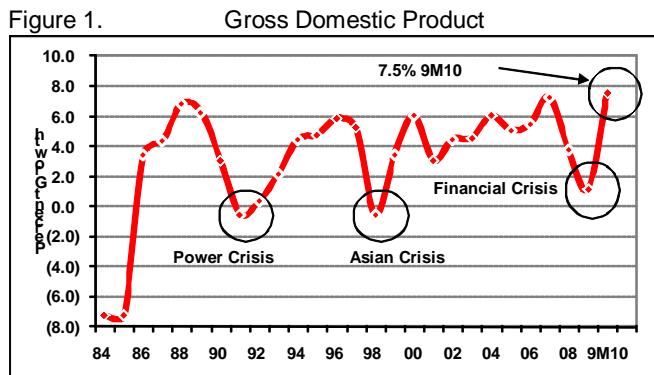




Weekly Market Commentary

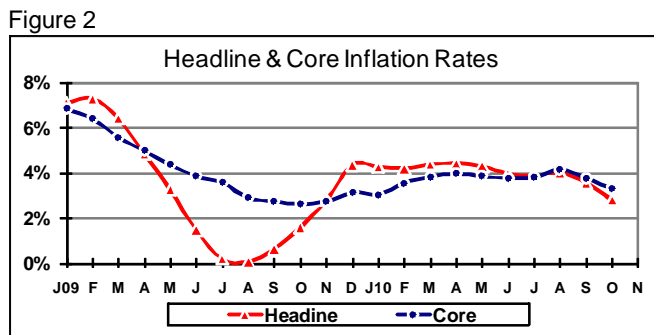
03 January 2011

2010 was a great year for financial markets. Prices of most asset classes rebounded as our recovery slowly gained traction. For the first 9 months of last year (9M10), our gross domestic product (GDP) expanded by 7.5% on the average. This growth would not have been possible were it not for supportive conditions such as benign inflation, a low interest rate regime and a relatively stable peso.



Source: NSO

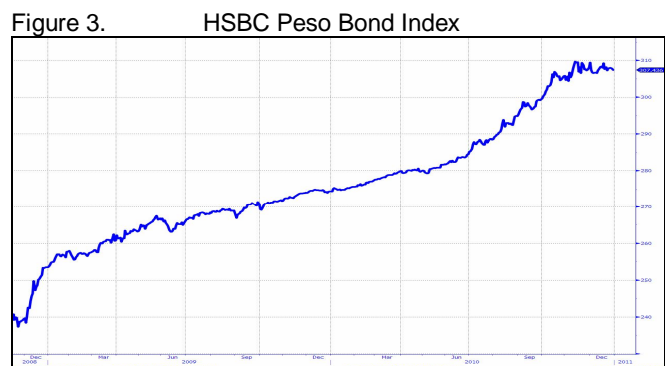
Headline and core inflation rate remained subdued last year averaging 3.9% and 3.7%, respectively for 11M10. The Nov. figures were even lower at 3.0% and 3.5% suggesting a deceleration in the uptick of consumer prices.



Source: NSO

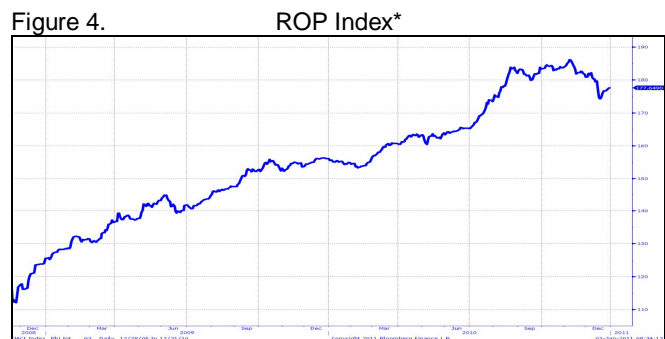
Interest rates. With inflation at very manageable levels on one hand, and the need to ensure liquidity (initially to ward off recessionary pressures & later to support economic expansion), the BSP saw it prudent to keep its policy rates unchanged for the whole of 2010. The central bank's policy rates have been left unchanged since July 2009.

Moreover, the combination of ample liquidity in the system and a prudent borrowing by the government have resulted in lower bond yields. Investors who bought government securities in early 2009 and held on to them until late last year have made substantial gains.



Source: Bloomberg

ROP bonds. Investors with exposure in ROPs (these are USD or EUR denominated securities) have also done well. ROP prices have appreciated on the back of improving country fundamentals as well as extreme low yields of US Treasuries.



*JPMorgan Asia Credit Index (Phil.)

Source: Bloomberg

The peso has remained stable with an upward bias for most of 2009. It reached its strongest level in early Nov. last year at ₱42.49. Lately though, the peso has temporarily reversed course due to external concerns, i.e., Europe's debt crisis, temporary appreciation of the USD. Overall, it ended the year at ₱43.80, 5.1% stronger than last year.

Figure 5. Peso Spot*



*Inverse chart, i.e., stronger peso as line moves lower
Source: Bloomberg

Local stocks. The favorable economic climate has clearly rubbed off on local equities. The benchmark Phil. Stock Exchange Index (PSEi) has appreciated by 37.6% last year which should be considered a very good performance considering that the PSEi already rose by 63.0% in 2009.

Figure 6. PSEi



Source: Bloomberg

UITF performance. UCPB's Unit Investment Trust Funds (UITF) have generally performed well compared to their respective benchmarks especially those with equity components.

Our United Equity Fund (UEF) has increased by 78.0% last year readily outperforming the PSEi's 37.6% return. Our United Balanced Fund (UBF) has also done very well growing by 43.1% in 2010 compared to its blended benchmark of 22.7%. We are pleased to inform you that our UBF and UEF are ranked first and second, respectively, in the industry for 2010.

The other funds though slightly underperformed their benchmarks. Our United Conservative Fund (UCF) had a return of 3.0% versus 4.4% for its benchmark while our United Cash Management Fund ended the year with a 2.5% return compared to its benchmark of 3.4%. Meanwhile, our United US Dollar Money Market Fund (U\$MMF) grew by 1.1% almost at par with the 1.2% return of its benchmark.

Table 1. UITF Performance 2010

2010 Performance	Fund	Benchmark
United Equity Fund	78.0%	37.6%
United Balanced Fund	43.1%	22.7%
United Conservative Fund	3.0%	4.4%
United Cash Management Fund*	2.5%	3.4%
United US Dollar Money Market Fund*	1.1%	1.2%

*Fund & benchmark returns net of taxes & fees

Outlook for 2011:

GDP. We believe that the economy will grow near the high end of consensus estimate of between 4.5% - 5.5% backed by strong consumer spending, exports and higher levels of investments. Consumer spending will be supported by robust remittances as well as increasing revenues from the IT/BPO sector. The country's electronic exports should find support from the recovery of the US market and increasing demand from China. Strong demand of base and precious metals (esp. gold) should also be positive for exports. New investments on the IT/BPO sector as well as infrastructure should boost capital formation.

The agriculture sector could provide a pleasant surprise this year especially if farmlands will not suffer from extreme weather conditions.

Interest rates will remain low for most part of the year. We expect a rate hike of 25 basis points for the 3rd and 4th quarters (total of 50 bps) as the BSP may have to act proactively to keep a lid on inflationary pressures. Higher commodity prices especially crude oil, increase in toll rates and possible fare hike are our main concerns.

Peso bond investors will be challenged this year on account of low bond yields against a backdrop of higher inflation expectation. As we have mentioned above, we believe that the BSP might hike rates around the 2nd part of the year (albeit only minimally) which should push bond yields higher and bond prices lower.

There could still be near term strength as liquidity remains very high but a retreat in bond prices is a distinct possibility during the second half of the year (2H11).

ROPs may still find some strength as we expect the US Fed to start raising rates only during the latter part of the year. The support of ROPs will come from high USD liquidity of banks and increased scarcity value as issuance will be minimal at best.

The peso should regain its strength this year as fundamentals remain supportive, i.e., robust remittances, higher revenues from IT/BPO sector, strong exports. We are looking at an initial target of ₱42.30 and possibly ₱40.00 toward the end of the year.

Equities. We expect equities to exhibit moderate growth this year with an index target of 5,000 or a market multiple of 14.3x based on a 15% earnings per share (EPS) expansion. While this year's performance may not be as spectacular as last year, there are a number of developments (e.g., leisure & tourism,

infrastructure and mining) that were not factored in our forecast which may surprise us on the upside.

Risks. The major downside risks we foresee are (1) spike in crude oil prices as growth in the US and emerging markets will prove stronger than expected; (2) failure of the government to meet its revenue target; (3) the expected infrastructure projects via the Public Private Partnership initiative fail to materialize; and (4) a contagion from Europe's debt woes.

On the upside, if US/EM growth will indeed be stronger equities should perform far better than our forecast.

Table 2. Market Indicators

Indicator	Level			Change			
	2009 Yr. End	23-Dec-10	31-Dec-10	Wk-on-Wk	% Ch	YTD	% YTD
Peso	46.16	44.10	43.80	-0.30	-0.68%	-2.36	-5.11%
Stocks	3,053	4,166	4,201	35.10	0.84%	1,148.46	37.62%
3-month PDSTF (%)	4.2769	1.2519	1.2917	0.04	3.98	-2.99	(298.52)
Peso Bonds	274	308	307	-0.44	-0.14%	33.11	12.07%
3-month USD LIBOR (%)	0.2506	0.3028	0.3028	0.00	-	0.05	5.22
USD Bonds (ROPs)	156	177	178	0.95	0.54%	21.49	13.76%
Crude Oil (USD/bbl)	78.36	91.51	91.38	-0.13	-0.14%	13.02	16.62%
Gold (USD/troy oz)	1,096.95	1,381.47	1,420.78	39.31	2.85%	323.83	29.52%
DXY	77.86	80.47	79.03	-1.45	-1.80%	1.17	1.50%
ADXY	110.67	115.32	116.46	1.14	0.99%	5.79	5.23%

Sources:
1/ Phil. Dealing System
2/ Phil Stock Exchange Index
3/ Phil. Dealing & Exchange Corp.; % change in basis points.
4/ HSBC Local Bond Index
5/ Bloomberg; % change in basis points
6/ JP Morgan Asia Credit Index
7/ West Texas Intermediate
8/ Bloomberg
9/ DX = USD spot index
10/ ADXY = Index of Asian currencies vs. USD

Annex A Explanatory notes on our Market Indicators.

In general, market indicators are used to assess the pulse and health of our economy. It is very similar to how doctors check our heartbeat, the color of our eyes, our cholesterol level or the sugar content of our blood to initially assess how healthy (or unhealthy) we are.

Since we are generally concerned with investments, the appropriate measures to look at are economic and market indicators. As investors, we want to know where these indicators are headed so we can make the appropriate decisions. These indicators are as follows:

Peso. *This is our currency and its current level and direction normally indicate the general health of the economy.*

Stocks. *A strong or robust stock market reflects a strong and growing economy or vice versa. Our stock market cannot be strong if our economy is weak. And the opposite is equally true. After all, corporate earnings and prospects reflect the overall outlook of the economy. The index we are using is the Phil. Stock Exchange Index (PSEi).*

3-month PDSTF Rate. *This is the indicator we use for domestic interest rates. It used to be the 90-day Treasury Bill rate but this instrument has lost its appeal since it is not very liquid and may not truly reflect market levels. PDSTF rates are better indicators of where interest rates are since these are based on actual rates of highly liquid instruments.*

Peso Bonds. *The HSBC Local Bond Index (Phil.) tracks the average price movements of local bonds and is a good indicator of how expensive (or cheap) bonds are. The index should also provide an indication of where bond yields are headed since bond prices and bond yields move in the opposite direction.*

3-month USD LIBOR. *This is the US dollar counterpart of the 3-month PDSTF rate. LIBOR means London Interbank Offer Rate, the rate at which banks lend to each other and used as a benchmark for commercial lending.*

USD Bonds (ROPs). *This index tracks the price movements of Phil. bonds denominated in US dollars. The index we are using is the JPMorgan Asia Credit Index (Phil.).*

Since the indices we use for stocks, peso bonds and USD bonds (ROPs) are based on price movements, the higher the level of the index, the better it is for investors.

Crude Oil. *At least in our lifetime, oil will always be one of the most important economic indicators since it is a basic feedstock of economies worldwide. The benchmark that we are using is the West Texas Intermediate (WTI) as it is the most common and widely used crude oil index.*

Gold. *This is our proxy for uncertainty. The price of gold normally goes up during uncertain or difficult times. This is because gold is the ultimate store of value. Paper currencies could lose their value but gold will always retain its value whether as an ornament or as a unit of exchange.*

DXY. *It is a spot index of the USD based on a basket of five currencies, Euro (57.6%), Japanese Yen (13.6%), British Pound Sterling (11.9%), Canadian Dollar (9.1%), Swedish Krona (4.2%) and Swiss Franc (3.6%). The DXY does not reflect the trade position of the US in the global economy. It is being used for convenience as its value is updated on a daily basis.*

ADXY. *It is a spot index of emerging Asian currencies versus the USD. It is composed of ten currencies, Renminbi (33.9%), South Korean Won (14.2%), Hong Kong Dollar (11.4%), Singapore Dollar (10.3%), Taiwan Dollar (8.2%), Indian Rupee (6.3%), Malaysian Ringgit (5.2%), Thai Baht (4.9%), Indonesian Rupiah (3.3%) and Phil. Peso (2.3%). The index is constructed based on two considerations, trade performance (75%) and liquidity (25%).*

Finally, note that there will always be a speculative element in the movement of these indicators. But speculation is not their main driver. The most important driver that normally sustains the movement of an indicator over the long-run is its fundamentals. For example, the movement of the peso is dictated by the following fundamental factors: (a) the health of our economy; (b) the amount of US dollars remitted by Filipinos working and living abroad; (c) the level of our exports; and (d) the amount of foreign direct investments we receive.

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