Peso Power

The Philippines Consumption Story and Its Low Correlation to the Chip Cycle

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Abstract

The Philippines enters the second half of 2026 as one of the fastest expanding economies in ASEAN, with real GDP growth tracking near 5.6% on the strength of household consumption, a record remittance base, and a broadening Build Better More infrastructure pipeline. Unlike the export led economies of North Asia, Manila derives roughly three quarters of output from domestic demand, giving the growth story an unusually low correlation to the AI and semiconductor capex wave now driving Taiwan and Korea earnings. We argue this makes Philippine assets a genuine diversifier inside an Asia portfolio that is otherwise heavily levered to the chip cycle. Risks are real and specific: a wide current account deficit, a peso that has tested the 58 to 59 per dollar zone, and a fiscal consolidation path that must not choke the capex multiplier. Bangko Sentral ng Pilipinas has room to ease as inflation settles inside target. We are constructive on Philippine domestic demand and rate sensitive equities, and we treat the peso as a carry cushioned but externally exposed currency to be hedged tactically.

1. The Case for a Consumption Anchor in an AI Heavy Region

Asia Pacific will grow around 4.4% in 2026 by our house baseline, still comfortably above the global average, and the region will again contribute close to 60% of world GDP growth. Yet the composition of that growth has rarely been more concentrated. J.P. Morgan estimates that Taiwan and Korea together account for roughly 30% of global AI related capital expenditure, a dynamic that is lifting Asia ex Japan earnings per share by an estimated 12 to 13% but also welding a large slice of regional equity beta to a single, cyclical, and increasingly crowded theme. When the memory and logic cycle turns, as it always eventually does, that concentration becomes a portfolio liability rather than an asset.

The Philippines sits almost entirely outside this axis. Electronics and semiconductor assembly do feature in Philippine exports, but the assembly and test niche the country occupies is a low value, back end segment, and exports of goods represent a far smaller share of GDP than in Vietnam, Malaysia, or Korea. What drives the Philippine economy is the Filipino consumer: private consumption is close to three quarters of GDP, funded by a domestic labor market, a globally distributed remittance sending diaspora, and a business process outsourcing sector that pays local salaries in hard currency linked revenue. This is the definition of an idiosyncratic growth engine.

> **Our view:** In a regional book dominated by semiconductor beta, the Philippines earns its place not on the highest growth rate but on the lowest correlation. It is the closest thing in ASEAN to a pure domestic demand call, and that is precisely why it belongs in a diversified Asia allocation in the second half of 2026.

2. Growth Composition: Why 5.6% Is Different Here

We expect Philippine real GDP to expand around 5.6% in 2026, near the top of the ASEAN league table alongside Vietnam and ahead of Indonesia, Singapore, and Thailand. Consistent with the IMF Regional Economic Outlook for Asia and Pacific and the World Bank East Asia and Pacific Update, the growth mix is dominated by final domestic demand rather than net trade. That matters because global merchandise trade volume growth has collapsed to roughly 0.5% in 2026 on WTO figures, down from above 2% in 2024 and 2025. An economy that lives on trade is fighting a headwind this year. An economy that lives on its own consumers is not.

The demand side rests on three pillars that reinforce one another. First, household consumption, supported by a young and still urbanizing population with a median age in the mid twenties, is the ballast. Second, remittances, which we discuss in Section 3, put a floor under disposable income and are strikingly acyclical to the domestic business cycle. Third, public and public private infrastructure investment under Build Better More is now large enough to act as a genuine fiscal multiplier rather than a rounding error, discussed in Section 5.

2.1 The Diversification Math

The investment case is best framed in correlation terms. North Asian equity returns in 2025 and into 2026 have been dominated by the AI capex cycle. Philippine domestic demand equities, banks, utilities, consumer names, and property, respond to local rates, remittance flows, and infrastructure execution, none of which are driven by hyperscaler order books. When we run a simple regional allocation, adding a Philippine domestic demand sleeve lowers the aggregate sensitivity of the book to a single global factor, the semiconductor order cycle, without giving up ASEAN caliber nominal growth.

It is worth being precise about what 5.6% is made of, because the headline number understates how defensive the composition is. On our decomposition, private consumption contributes the bulk of the growth impulse, gross fixed capital formation adds a further meaningful slug through both public infrastructure and private construction, and net exports are a persistent drag rather than a contributor. That drag is the mirror image of the strength: an economy pulling in capital goods and energy to build out capacity will run a trade gap, but the same import intensity is what raises the future speed limit. Contrast this with Vietnam, where a similar top line growth rate is far more exposed to the external manufacturing cycle and to United States transshipment enforcement, and the diversification value of the Philippine mix becomes clear. Two economies can print the same growth number and carry entirely different factor exposures underneath.

3. Remittances and BPO: The Two Hard Currency Lifelines

The single most distinctive feature of the Philippine external accounts is the size and stability of secondary income and services inflows. Overseas Filipino worker remittances run at a scale equivalent to high single digit percentages of GDP, and cash remittances channeled through the banking system have continued to post steady annual growth. Crucially, these flows are countercyclical to peso weakness: a softer peso raises the local currency value of dollars sent home, cushioning household purchasing power exactly when import prices bite. This is a structural stabilizer that most of the region simply does not have.

The business process outsourcing sector is the second lifeline and, in our view, the more strategically important one over a five year horizon. The industry employs well over a million and a half Filipinos and generates tens of billions of dollars in annual revenue, much of it dollar linked, paid out as peso salaries into the domestic economy. The debate for 2026 and beyond is generative AI. The bear case is that large language models automate voice and back office work. Our reading, informed by Deloitte and Mastercard Economics Institute commentary on services trade, is more constructive: the Philippine industry is moving up the value chain into higher complexity finance, healthcare, and analytics functions, and AI is so far augmenting seat productivity more than eliminating seats outright.

> **Our view:** We treat remittances as a near constant and BPO as a slow moving structural positive that is being mispriced by an overly literal AI displacement narrative. The risk to monitor is real, but the 2026 evidence points to BPO revenue resilience, not collapse. This underpins our constructive stance on Philippine consumer and banking exposure.

Metric	Philippines	Vietnam	Indonesia	Thailand
2026 real GDP growth (est.)	5.6%	6.0 to 6.5%	5.0%	1.8 to 2.5%
Private consumption share of GDP	~73%	~55%	~54%	~57%
Goods exports share of GDP	Low (back end assembly)	High (manufacturing FDI)	Moderate (commodities)	Moderate (autos)
AI / chip cycle correlation	Low	Moderate	Low to moderate	Low
Primary domestic driver	Remittances + consumption	Export manufacturing	Downstreaming + consumers	Tourism + autos

Shares are approximate and indicative of structural composition rather than precise national accounts vintages. Sources: IMF Regional Economic Outlook, World Bank East Asia and Pacific Update, Darmine estimates.

4. BSP Policy and the Peso

Bangko Sentral ng Pilipinas enters the second half of 2026 in an easing bias, consistent with the broader central bank divergence theme in which the Fed is cutting, the PBoC is easing, MAS is on a gradual appreciation path, and only the BOJ is tightening. With headline inflation settling inside the 2 to 4% target band and food price pressures moderating, BSP has scope to lower the policy rate further to support the domestic demand cycle, provided the peso remains orderly.

The peso is the pressure valve. PHP has traded in a soft zone that has repeatedly tested the 58 to 59 per dollar area, reflecting a persistent current account deficit driven by capital goods and energy imports, the very imports that a fast growing, investing economy generates. This is a benign source of external deficit in the sense that it funds productive capacity, but it does leave the currency exposed to global dollar swings and to any risk off episode. BSP has ample gross international reserves to smooth volatility and has shown willingness to lean against disorderly moves rather than defend a level.

The reserve buffer deserves emphasis because it is what separates an orderly peso from a disorderly one. Gross international reserves cover several months of imports and a comfortable multiple of short term external debt, which gives BSP the latitude to smooth episodic pressure without burning through the buffer or resorting to the kind of rate defense that would abort the easing cycle. Just as important, the financing of the current account gap is high quality: remittances and BPO receipts are sticky, non debt inflows, and foreign direct investment tied to the Build Better More build out is longer duration than portfolio money. An external deficit funded by hot flows is fragile, an external deficit funded by diaspora income and greenfield investment is durable. The Philippine gap sits closer to the durable end of that spectrum, which is precisely why we treat peso weakness as a risk to hedge rather than a solvency question.

4.1 The Easing Versus Peso Trade Off

The central tension for 2026 is that the same rate cuts that support consumption and Build Better More financing also narrow the peso rate differential and can pressure the currency lower. Our expectation is that BSP eases cautiously and in step with Fed cuts, so that the differential is preserved in relative terms even as absolute rates fall. A softer peso is not purely a negative here: remittance recipients gain, BPO margins improve, and exporters at the margin benefit. The line to watch is imported inflation feeding back into the CPI and forcing BSP to pause.

> **Our view:** We see BSP delivering measured cuts through the second half of 2026 while tolerating a peso in the high 50s. We are constructive on Philippine rate sensitive equities into this easing, but we hedge peso exposure tactically rather than running it unhedged, given the current account deficit and dollar sensitivity.

5. Build Better More: The Fiscal Multiplier

Build Better More is the continuation and rebranding of the Philippines flagship infrastructure push, and it is the swing factor for whether trend growth settles at 6% or stalls near 5%. The program spans transport, rail, airports, water, and digital connectivity, with an explicit tilt toward public private partnerships to stretch fiscal capacity. Sustained infrastructure spending at a meaningful share of GDP does two things at once: it lifts near term construction and materials demand, and it raises the economy speed limit by easing the logistics bottlenecks that have long taxed Philippine productivity.

The fiscal arithmetic is the binding constraint. The government is committed to gradual deficit consolidation, and the honest tension is that consolidation and a large capex program pull in opposite directions. Our view is that the composition of consolidation matters more than the headline path: protecting capital expenditure while trimming current spending and widening the revenue base preserves the multiplier. If instead capex is the line that gets cut to hit a deficit target, the growth premium the Philippines commands over Thailand and the North Asian laggards erodes quickly.

- Upside catalyst: PPP awards accelerate and disbursement rates on flagship projects improve, converting appropriations into actual construction activity.
- Downside catalyst: fiscal consolidation falls disproportionately on capital expenditure, hollowing out the multiplier and the productivity story.
- Structural payoff: reduced logistics and congestion costs lift potential growth and make the domestic market more attractive to manufacturing FDI over time.
- Financing risk: heavy reliance on external and PPP financing raises sensitivity to global rates and to the peso.

> **Our view:** Build Better More is credible fiscal firepower, but its value to investors is execution dependent. We reward evidence of rising disbursement and PPP momentum and we penalize any sign that capex is being

> sacrificed to hit a deficit headline. This is the single most important thing to track for the medium term Philippine call.

6. Risks: Current Account, External Beta, and Politics

We are constructive, not complacent. The clearest vulnerability is the current account deficit. A consumption and investment led economy that imports capital goods and energy runs a structural external gap, and that gap is financed by remittances, BPO receipts, portfolio flows, and FDI. In a benign global environment this is easily funded. In a risk off episode, the peso is the first thing to move, and a sharp currency shock would import inflation and force BSP to defend rather than ease.

The second risk is that the Philippines low correlation to the chip cycle is a double edged sword. It diversifies, but it also means the country does not participate in the AI capex upside that is lifting Taiwan and Korea earnings. In a year where global equity leadership is narrow and technology heavy, a domestic demand market can lag on a relative basis even while delivering solid absolute nominal growth. Investors must hold the position for what it is, a diversifier and a nominal growth compounder, not a momentum trade.

Third, politics and governance. Mid term political dynamics, budget passage timing, and continuity of the infrastructure agenda across the electoral cycle all carry execution risk. The Philippine growth story has historically been undermined less by demand than by the state capacity to spend well and on time. We watch disbursement data as the cleanest read on this.

A fourth risk, more slow burning, is the generative AI question hanging over BPO. We have argued the displacement fear is overstated, but intellectual honesty requires acknowledging the tail: if large language models compress voice and low complexity back office work faster than the industry can migrate up the value chain, a sector that pays dollar linked salaries into millions of Filipino households would see its wage bill growth stall. That would not break the consumption story, remittances and domestic employment would still carry it, but it would remove one of the two hard currency lifelines that make the external accounts resilient. We treat this as a monitor rather than a base case, and we look to sector revenue and headcount prints, not headlines, to tell us whether augmentation is quietly turning into substitution.

> **Our view:** The bull case is a stable global dollar, orderly BSP easing, and accelerating capex disbursement. The bear case is a global risk off shock that hits the peso through the current account channel. We size the position accordingly, constructive on domestic demand equities, cautious and hedged on the currency.

Portfolio Positioning Summary

Overweight: Philippine domestic demand equities: banks and rate sensitive lenders into a BSP easing cycle, consumer staples and discretionary names geared to remittance supported households, and construction and materials exposed to Build Better More disbursement. This sleeve is our preferred vehicle for adding uncorrelated ASEAN nominal growth to a chip heavy Asia book.

Market weight: Philippine BPO linked and back end electronics exposure. The AI displacement fear is overstated and the value chain migration is real, but the segment carries genuine structural uncertainty and dollar revenue sensitivity that argue for a neutral rather than overweight stance until 2026 revenue trends confirm resilience.

Underweight: The unhedged Philippine peso. We prefer to earn the domestic demand growth while hedging currency risk, given the persistent current account deficit, the tested 58 to 59 per dollar zone, and the peso sensitivity to global dollar swings and risk off episodes.

Key catalysts to reassess: Reassess on: BSP policy meetings and the pace of cuts relative to the Fed; monthly cash remittance growth prints; BPO sector revenue and headcount data as the AI augmentation versus displacement debate resolves; Build Better More disbursement and PPP award momentum; the current account and balance of payments trajectory; and any peso move through 59 that pressures BSP to pause easing.

Conclusion

The Philippines does not offer the highest growth rate in Asia, India holds that title in our book, nor the AI leverage of Taiwan and Korea. What it offers is scarcer and, in the current market, more valuable: roughly 5.6% growth built on domestic consumption, a record remittance base, a resilient BPO sector, and a credible infrastructure multiplier, all with a low correlation to the semiconductor cycle that dominates regional equity beta. In a portfolio otherwise concentrated in the AI capex theme, that idiosyncrasy is the entire point.

We are constructive on Philippine domestic demand and rate sensitive equities into a measured BSP easing cycle, market weight on BPO and back end electronics where the AI narrative is noisier than the fundamentals, and disciplined on the peso, which we would own only hedged given the current account deficit and external beta. The position to build is a nominal growth compounder and a diversifier, held for its low correlation rather than traded for momentum. The variable that decides whether trend growth settles at 6% or drifts toward 5% is execution of Build Better More, and that is where we will keep our closest watch.

Sources and Further Reading

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