Financial markets uniformly lower on broad range of risks | 22 March 2021

- **Equity markets were uniformly lower on rising regulatory risk for US banks, vaccine delays in EU and the abrupt rise in PH daily Covid-19 cases.**
- **UST yields continue uptrend due to Fed indecisiveness while local bond market trades sideways as yields stabilize from last week's sell-down.**
- **Markets see past weak US Feb retail sales and industrial production, given positive impact of stimulus spending in March-April.**

US Feb retail sales and industrial production down on inclement weather. Market looks to better March-April on stimulus boost.

- The market largely ignored the weak February US retail sales print of -3% y/y, owing to inclement winter weather, as the $1,400 stimulus checks were expected to boost March and April sales numbers as Americans receive these in their accounts. January retail sales were up +7.6% after departing US President Trump approved $600 stimulus checks for qualifying individuals. According to the Fed, industrial production slid 2.2% in February, likewise affected by winter storms, leading to home builders' monthly confidence index slipping 2 points to 82 in March, the lowest since last August.

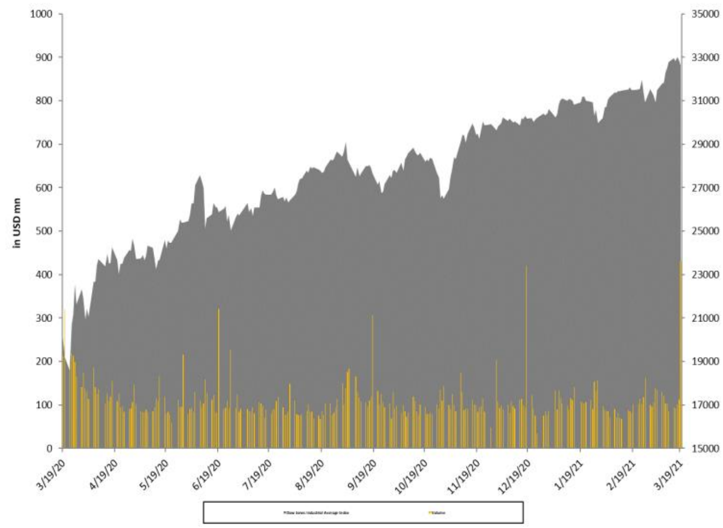
Source: JP Morgan

Most US bourses close the week lower on rising regulatory risk for financial sector. Tech compensates to end the week flat.

- US equity markets took a breather from its winning streak with all 3 major bourses closing the week slightly lower. Financials led the decline after the Fed refused to extend regulatory relief, which previously relaxed certain capital adequacy requirements for American banks. Further, key index constituent Visa Inc was reportedly put under investigation by the Dept. of Justice. However, gains from the technology sector help prop up markets for a flattish closing. The Dow, S&P 500 and Nasdaq were fell -0.46%, -0.77% and -0.79% WoW to 32,627.97, 3,913.10 and 13,215.24.
- In the Eurozone, meanwhile, equity bourses tumbled on inflation concerns as Treasury yields continued to climb. Fears over a shortage of Covid-19 vaccines were evident and Germany and France resumed administration of Astra Zeneca-Oxford vaccines, despite early reservations over adverse side effects, as the prospect of a broad delay in vaccination campaigns stalling the union's recovery turned very real. This was reflected in commodity names like oil companies with BP, Shell and Eni falling -1.7%, -0.9% and -1.6%, respectively, as the adverse impact of the lockdowns on energy demand set in.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	**19-Mar-21**	**12-Mar-21**	**29-Dec-20**	**+/-**
UST 2Y	0.15	0.15	0.13	0.00
UST 5Y	0.88	0.84	0.38	0.04
UST 10Y	1.72	1.62	0.94	0.10
UST 20Y	2.34	2.29	1.47	0.05
UST 30Y	2.43	2.38	1.68	0.06
ROP 3Y	0.82	0.81	0.39	0.00
ROP 4Y	1.06	1.01	0.51	0.05
ROP 9Y	2.32	2.38	1.53	(0.06)
ROP 10Y	2.26	2.32	1.52	(0.06)
ROP 25Y	3.20	3.20	2.59	0.00
PHP	**19-Mar-21**	**12-Mar-21**	**29-Dec-20**	**+/-**
2Y	2.35	2.30	1.80	0.06
3Y	2.91	2.88	1.86	0.03
4Y	3.12	3.06	2.33	0.06
5Y	3.31	3.23	2.48	0.08
7Y	4.30	4.05	2.92	0.26
10Y	4.31	4.14	2.87	0.17
11Y	4.18	4.21	2.95	(0.03)
20Y	4.99	5.10	3.93	(0.11)
20Y*	5.15	5.03	3.94	0.12
USDPHP	**48.620**	**48.455**	**52.580**	**0.165**

Source: Bloomberg

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Philippine Equities

- The local equities bourse declined markedly last week, sliding -4.3% WoW to end at 6,436.10 amid the sharp increase in daily Covid-19 cases. Daily new cases, including new variants of the virus, breached 7,000 and climbed higher since to nearly 8,000 over the weekend, prompting the IATF to hold an emergency meeting the results of which were announced yesterday. While quarantine status for NCR is stuck at GCQ, surrounding provinces were downgraded to the same level as Metro Manila and restrictions were tightened further to eliminate dine in (except al fresco), resumption of 10pm-5am curfew and reduction of occupancy for government offices. As such, the Philippine remains second worst in ASEAN with 648K total cases. The -1.75% y/y fall in OFW remittances did not help matters as corporates began to wind up a pretty uninspiring 2020 reporting season. In other news, Dennis Uy, Chair of Chelsea Logistics, sold his stake in 2Go logistics to his partners in SM. For this week, we expect investors to pay keen attention to the daily new cases trend and the ongoing vaccine rollout. The BSP is due to meet but consensus is that rates will remain unchanged. 2020 corporate reporting season will conclude with the disclosure of CNPF and EMP results. To date, 64% of index names are behind Sunlife expectations with a mere 2% outperforming and about 16% just in line.

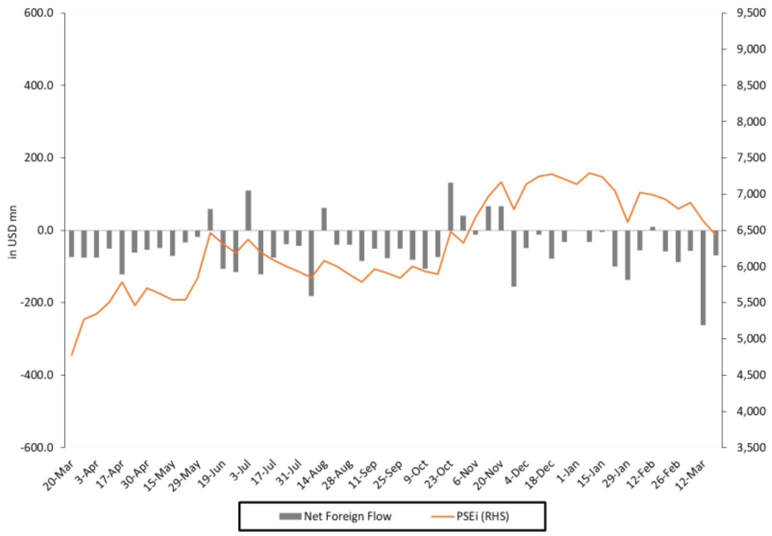
USD fixed income

- 10Y US Treasury yields closed the week 10-12bps higher at 1.72%, breaking the short-term 1.625% resistance. The move higher came on the heels of the week's FOMC meeting, wherein the Fed acknowledged that economic data was better but still making no concrete reassurances to the bond market about the pace of rising yields. The Fed dot plot (a graph showing where members foresee policy rates in the future) showed that rate hikes might come as early as 2023 despite extraordinary fiscal stimulus. ROP spreads moved in line with other EMs, closing the week tighter by 15-18bps as strong buying demand was seen after the FOMC.

PHP fixed income

- Local bond yields stabilized over the week after the relentless push higher a few weeks back. Though trading was choppy, 5Y yields eventually closed the week at 3.20-25 levels amidst a very defensive market. Given tighter spreads between 3Y and 5Y yields, some buying was seen to push 3Y yields to 2.90-95 levels to close the week.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Industrials -0.81%, Financials -0.83%, Mining and Oil -2.86%, Services -3.75%, Property -5.80%, Conglomerates -6.04%
Leaders: BPI +4.7%, PGOLD +4.2%, MER +3.3%, URC +3.2%, LTG +3.0%
Laggards: BLOOM -9.0%, TEL -8.8%, AEV -8.7%, AP -7.8%, SM -7.3%
Source: Bloomberg, The Philippine Stock Exchange

Outlook for the week

Stock market

- The PSEi succumbed to selling pressure, breaking below the 200MA of 6,464, as investor sentiment turned sour on the back of the worsening COVID situation locally. In addition, FTSE re-bal flows at the end of the week exacerbated the downward pressure on the market. For the week, we expect the market to trade sideways between the 6,400 to 6,700 range as players continue to watch the situation on the ground. However, any announcement of further restrictions may drive the market lower. The next support level is at 6,200.

USD fixed income

- Expecting yields to continue trending higher, with near-term trading range at 1.55-1.75.

PHP fixed income

- Yields may continue to trade with an upward and steepening bias as market remains defensive ahead of this week's 10Y auction and BSP MB meeting.

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