

US, PH stocks favored, despite inflation and Covid concerns

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- Equity markets were uniformly higher on strong US Feb labor data and arrival of the first batches of PH vaccines. Rising daily cases bear watching.
- Bond yields trend higher last week in local and US markets with the former tracking the latter and the strong Feb US jobs data holding yields up.
- The strong Feb US labor report point to firms gearing up for a return to relative normalcy, post herd immunity, and boost from \$2Tn stimulus.

US jobs result stronger than expected, pointing to mass vaccine campaign taking effect. Fed seems unconcerned about inflation.

- The US economy generated 379,000 new jobs in February, far higher than expectations of just 210,000 and easily the largest addition in four months. This help curb US unemployment further from 6.3% to 6.2%, albeit somewhat understated by the lower labor force participation rate. The robust labor result indicates that the two-pronged reaction consisting of a massive vaccination campaign coupled with substantial fiscal spending via direct payments to Americans are having a positive impact, but have attendant risks like inflation. With respect to Pres. Biden's \$1.9Tn stimulus plan, the House is preparing to vote on the measure after the bill hurdled the Senate 50 to 49 with both sides of the aisle voting along party lines.

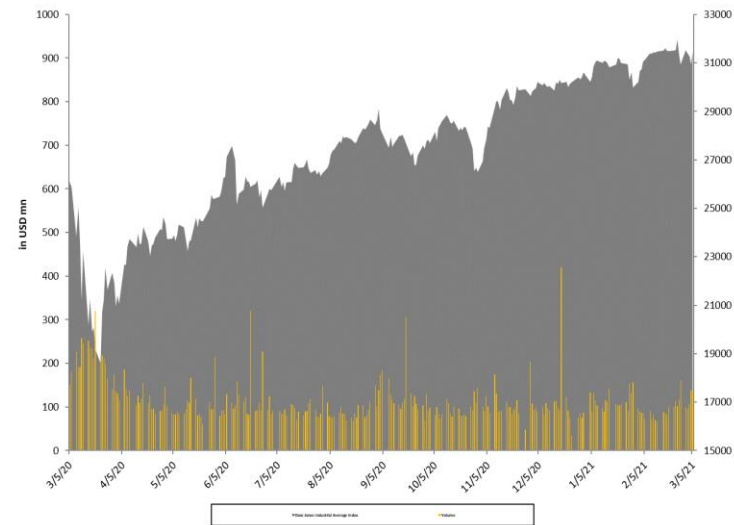
Source: JP Morgan

Most US bourses close the week higher on strong Feb labor print, UST yields stabilizing and Tech sector mounts late rebound.

- Most US bourses closed last week on solid footing as the increase in bond yields stabilized after better-than-expected monthly labor data evidenced expectations that the economy was gradually recovering from the impact of the pandemic. Even the NASDAQ, which was down WoW, enjoyed a bounce last Friday led by heavyweights Amazon and Apple. The 10-Yr UST shed one basis point to 1.553% by Friday on recent Fed rhetoric seen as discounting the inflationary impact of Pres. Biden's \$2Tn stimulus plan. The Dow and S&P rose by 1.82% and 0.81% WoW, respectively, to 31,496.30 and 3,841.94, while the Nasdaq and VIX corrected by -2.06% and -11.77% WoW to 12,920.15 and 24.82.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	05-Mar-21	26-Feb-21	29-Dec-20	+/-
UST 2Y	0.14	0.13	0.13	0.01
UST 5Y	0.80	0.73	0.38	0.07
UST 10Y	1.57	1.40	0.94	0.16
UST 20Y	2.18	2.04	1.47	0.14
UST 30Y	2.30	2.15	1.68	0.15
ROP 3Y	0.67	0.59	0.39	0.08
ROP 4Y	0.88	0.78	0.51	0.10
ROP 9Y	2.24	2.16	1.53	0.08
ROP 10Y	2.22	2.15	1.52	0.07
ROP 25Y	3.26	3.12	2.59	0.14
PHP	05-Mar-21	26-Feb-21	29-Dec-20	+/-
2Y	2.06	1.99	1.80	0.06
3Y	2.35	2.27	1.86	0.08
4Y	2.64	2.64	2.33	(0.00)
5Y	2.80	2.89	2.48	(0.09)
7Y	3.34	3.23	2.92	0.11
10Y	3.85	3.68	2.87	0.17
11Y	3.98	3.99	2.95	(0.01)
20Y	4.85	4.84	3.93	0.01
20Y*	4.76	4.31	3.94	0.45
USDPHP	48.560	48.590	52.580	(0.030)

Source: Bloomberg

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Philippine Equities

- Despite the ongoing rise in Covid-19 daily infections, which had reached and breached 3,000 last week and maintained this clip until yesterday, and February inflation printing above the BSP's tolerance for another month at 4.7% the local bourse still gained +1.3% WoW to close at 6,881.37 Friday. We attribute this to the arrival of the first few batches of Covid-19 vaccines which were promptly administered to priority recipients. Most of the index constituents had rounded out FY 2020 results season with a lackluster showing with only 16% of those who reported coming ahead of consensus estimates, while 28% were just in-line and 56% were behind expectations. Meanwhile, the government continues to secure more doses as it finalizes deals with several global pharma companies. For this week, expect market participants to pay close attention to the alarming trend in daily cases as they approach levels consistent with a return to hard lockdown. The flipside to this is clearly the progress in ordering and actual delivery, distribution and administration of vaccines. Also, there are a few more results due out such as AP, AC, AEV, FB, and CNVRG.

USD fixed income

- Treasury yields closed higher and steeper over the week, as better US economic data and the continued pricing of additional fiscal stimulus pushed the move (10Y yields moved as high as 1.62%). Fed Chair Powell disappointed the market when he said the recent run-up in yields was "something.. notable", with market seeking reassurances that he couldn't give. Inflation expectations in the US are also picking up, with forecasts for 5Y inflation at 2.5% after the strong payroll report. Spreads on ROPs closed the week sideways at +65-70bps though, with market seemingly defensive at this point.

PHP fixed income

- February CPI printed at +4.7% (in line with market expectations); BSP reiterated their stance that policy remains appropriate. WoW, the yield curve continued to steepen: 10Y and 20Y rates last traded at 3.90-95 and 4.95 levels, while 5Y-7Y rates closed 5-10bps lower. The BTR issued 463.3bn of 3Y Retail Treasury Bonds at 2.375%.

Outlook for the week

Stock market

- The PSEI will likely trade between the 6700 to 7000 range given headlines on the vaccine front and its implications on quarantine restrictions across the country. However, for the week, a mild bias towards an uptick is expected given the gradual progress on the vaccine front. This could be tempered by continuing concerns on inflation and growth outlook. Investors will likely keep tabs on earnings releases this week from big caps such as AC AP AEV CNVRG.

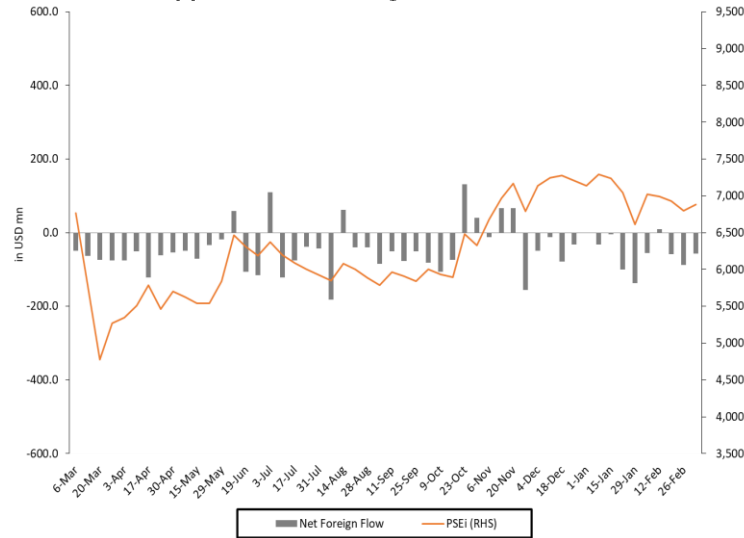
USD fixed income

- Expecting near-term consolidation (or possibly a correction lower) here; break of 1.60% resistance opens the path up to 2%.

PHP fixed income

- Expect markets to remain defensive amidst US Treasury volatility; all eyes will also be on the first trading day of the 3Y RTB on March 09.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Holding firms +2.01%, Industrial +1.52%, Services +0.78%, Property +0.66%, Financials +0.03%, Mining -5.11%

Leaders: BDO +5.0%, JFC +4.4%, ICT +4.2%, AP +3.3%, SM +3.2%

Laggards: RRHI -5.8%, MBT -3.6%, BPI -2.8%, LTG -2.7%, SECB -2.2%

Source: Bloomberg, The Philippine Stock Exchange