

# Equities fall globally while bonds just flat ahead of Fed meet

## 26 April 2021

- Equity markets are uniformly lower on mixed macro data releases, profit taking and lingering anxiety over 2<sup>nd</sup> and 3<sup>rd</sup> wave Covid-19 outbreaks.
- Bonds trade sideways last week as UST expect no change in Fed rate after FOMC meeting this week. Philippine curve steepened last week.
- US manufacturing, service PMI and new home sales were good, but poverty incidence and used home sales worsen. EU April PMI also strong.

### US and EU equity markets lower on mixed economic data, recurring virus fears and early 1Q results that disappointed.

- US equity bourses were uniformly lower last week on news of a possible sharp increase in capital gains taxes on American investors by Biden, the worsening poverty rate and the weak performance of the Tech sector early last week. Existing home sales were also reportedly 3.7% lower in March. The Dow Jones, S&P 500 and Nasdaq were down -0.46%, -0.13% and -0.25%, respectively, while market volatility increased with the VIX rising 6.65% week-on-week. The mood in Europe was similar with investors looking for direction apart from disappointing early 1Q results from certain names and a mid-week scare as renewed virus fears led to significant profit-taking. Sentiment improved somewhat by the weekend on improving PMI April data across the Eurozone, which printed at 53.7, higher than March's 53.2. Further, UK retail March sales grew 5.4%, beating expectations, even prior to Covid-19 restrictions being lifted. The CAC, FTSE, STOXX and DAX were down -1.31%, -1.15%, -1.05% and -1.17% week-on-week, respectively.

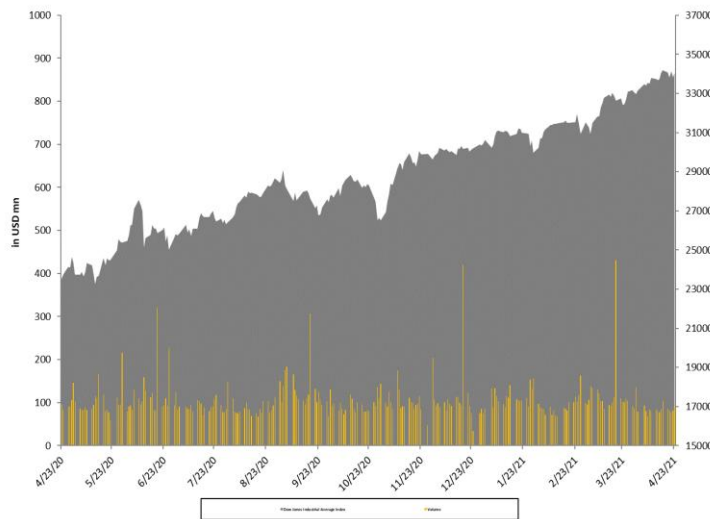
Source: JP Morgan

### US manufacturing and services PMI for April stay firm, new home sales robust as Fed likely to stay dovish as FOMC meeting looms

- In the US, April manufacturing PMI printed at 60.6, broadly IN-LINE with expectations of 60.5. The Services PMI for the same month, however, decisively beat expectations of 61 to come in at 63.1. Also, brand new home sales for March printed at 1.02Mn units, likewise beating consensus estimates of 888,000 units.. The Fed, meanwhile, prepared to gather for its April FOMC meeting in the middle of this week. Previous rhetoric from Fed Chair Jerome Powell indicated that monetary policy may remain dovish even as the U.S. economy recovers strongly. Consensus expectations of the meeting, meanwhile, expect the rhetoric to reflect the progress made in the US economy's rebound, but probably remain silent in terms of forward guidance with respect to the economic conditions that would justify the Fed altering its current policy stance.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	23-Apr-21	16-Apr-21	29-Dec-20	+/-
UST 2Y	0.16	0.16	0.13	(0.00)
UST 5Y	0.82	0.83	0.38	(0.01)
UST 10Y	1.56	1.58	0.94	(0.02)
UST 20Y	2.12	2.15	1.47	(0.03)
UST 30Y	2.23	2.26	1.68	(0.03)
ROP 3Y	0.54	0.56	0.39	(0.02)
ROP 4Y	0.87	0.92	0.51	(0.04)
ROP 9Y	2.11	2.17	1.53	(0.05)
ROP 10Y	2.07	2.08	1.52	(0.02)
ROP 25Y	3.05	3.06	2.59	(0.01)
PHP	23-Apr-21	16-Apr-21	29-Dec-20	+/-
2Y	2.28	2.32	1.80	(0.04)
3Y	2.56	2.69	1.86	(0.13)
4Y	2.97	2.93	2.33	0.04
5Y	2.85	2.93	2.48	(0.08)
7Y	3.63	3.92	2.92	(0.29)
10Y	3.80	3.81	2.87	(0.02)
11Y	3.97	4.15	2.95	(0.19)
20Y	4.91	4.96	3.93	(0.06)
20Y*	4.92	4.95	3.94	(0.03)
USDPHP	48.381	48.380	52.580	0.001

Source: Bloomberg

DISCLAIMER: This material is for information purposes only and is subject to change at any time without notice. Sun Life of Canada (Philippines), Inc. does not guarantee its accuracy, completeness, correctness or timeliness for any purpose or reason. This information is given in summary form and does not purport to be complete and should not be considered as advice or recommendation in relation to your holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. You may not revise, transform, or build upon this material without prior written consent of Sun Life of Canada (Philippines), Inc. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant documentation and in particular, you should seek independent financial advice from your Sun Life Financial Advisor.



## Philippine Equities

- The local equity bourse slid another -1.8% WoW to close last week at 6,378.07. Despite some progress in reducing daily new cases, which stayed under 10,000 for a fourth consecutive day last Thursday, sentiment still soured as multiple countries issued travel bans to and from the Philippines. The US state department issued the warning to Americans to stay away from 160 countries, including ours. Hong Kong, meanwhile, banned flights from the Philippines, India and Pakistan for 14 days starting April 20. The circuit breaker was imposed to limit COVID-19 transmission from these three countries deemed 'high-risk'. In other news, 1st quarter earnings season began last week with BPI, BDO and UBP disclosing their YTD-March earnings. It's been a mixed bag so far with index constituents BPI and BDO coming out behind and ahead of respective full-year 2021 net income forecasts at about 20% and 30% of annualized 2021 earnings estimates. For this week, we expect investors to continue monitoring the rate of increase in new daily COVID-19 cases as well as the progress of the vaccine rollouts. Media reports highlighted more deliveries of Sputnik and Sinovac vaccines in the coming weeks and months. For macro indicators, we expect M3 (money supply) growth for March due out this week, as well as corporate earnings results from MER, AP, AEV and RRHI.

## USD fixed income

- It was a relatively quiet week for US markets as the Fed was on blackout period ahead of this week's FOMC meeting. Yields remained below the 1.60% level amidst some equity market corrections and reports of Biden's capital gains tax plans. 10Y yields closed the week sideways at 1.56% levels while ROP spreads hovered at the +50bps area. The Philippines issued EUR-denominated bonds in the 4Y, 12Y, and 20Y tenors (around \$2.5bn), though markets still anticipate a potential USD bond offering in Q2 or Q3.

## PHP fixed income

- The local yield curve steepened WoW as 3Y yields finally broke 2.70% (touching as low as 2.52%), while 5Y and 10Y yields held steady at 3.20% and 3.75-85% levels respectively. Despite the BTR awarding 7Y bonds at 3.625% amidst a high bid-to-cover ratio, longer-dated bonds eventually ended the week 2-3bps higher as the flattening trend broke.

## Outlook for the week

### Stock market

- If the moving average of new COVID-19 cases continues to trend lower, the PSEi is likely to hold above its 6,325 support next week and even rebound following last week's 2% drop. On the other hand, if new cases pick-up again, the bellwether index could break-down and re-test the 6,200 level. We also expect investors to continue to move based on their 1Q21 corporate earnings expectations. In terms of macro news, no major release is expected next week.

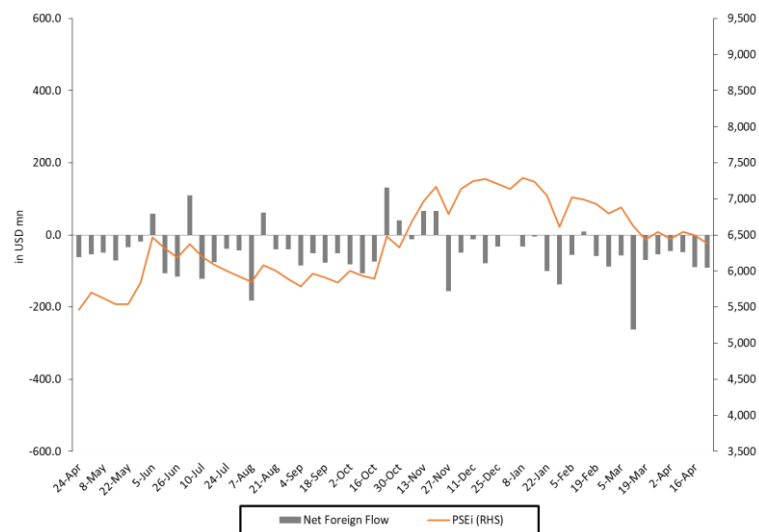
### USD fixed income

- This week we have the FOMC meeting, wherein markets are not really expecting any change in stance or rhetoric, as well as PCE and GDP data releases.

### PHP fixed income

- Expecting possible steepening in a corrective move; local yields are also likely to take their cues from USD rates moves.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Industrial +0.15%, Services -0.42%, Financials -0.67%, Conglos -2.54%, Mining and Oil -2.71%, Property -2.84%

**Leaders:** URC +2.7%, PGOLD +1.4%, TEL +1.4%, ICT +1.2%, GLO +1.1%

**Laggards:** BLOOM -9.0%, JGS -7.7%, MEG -7.7%, EMP -4.9%, SECB -4.5%

Source: Bloomberg, The Philippine Stock Exchange