

US, EU equities fare better than PH on strong macro data

24 May 2021

- EU equities outperform US, PH on strong manufacturing PMI print and signs of broad reopening. US PMI strong too, but tech sector is correcting.
- UST continue to trade sideways on hawkish rhetoric from recent Fed minutes foreshadowing tapering talk. PH bond yields trade in a tight range.
- US, EU and UK post record high PMI scores for May. Durable goods orders for autos and aircraft reflect this while EU services poised for recovery

US bourses trade sideways with slight downward bias as BTC driven Tech correction offset firm industrial, commercial activity

- Despite the robust PMI manufacturing print for May, US bourses traded largely sideways with a slight downward bias as the Technology sector continued to correct in large part due to the ongoing crash in Bitcoin prices. Some names led a late relief rally such as Boeing which announced an increase in the pace of B737-Max monthly completions to as much as 42 jets per month by end-2022 and Ford, which announced robust order-taking for its new EV pickup truck. The Dow Jones and S&P 500 were down -0.51% and -0.43%, respectively, WoW, while Nasdaq was up 0.31% and overall volatility rose 7.12% on the week.
- Continental European bourses were up week-on-week on the prospect of a broad macro rebound based on high frequency data pointing to increasing activity in automotive, construction and energy sectors. PMI numbers for UK were good, at 62 (all-time high) compared to 60.7 in April, as were retail sales which were 9.2% higher for April, twice the consensus estimate. In the Eurozone, sentiment picked up as business volume growth was at the fastest clip in 3 years following the vaccine rollout gathering pace and allowing the huge services sector to reopen. The May flash composite PMI printed at 56.9 compared to April's 53.8. The DAX, CAC and STOXX 600 were up 0.14%, 1.56% and 0.20%, respectively, WoW, but the FTSE slid slightly by -0.36%.

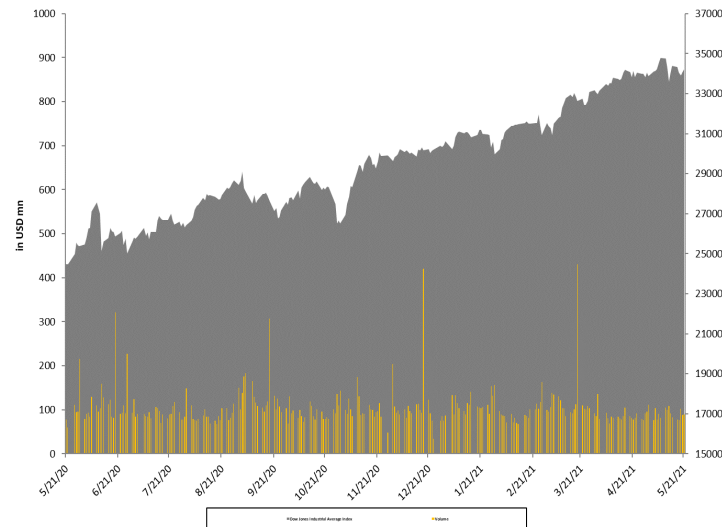
Source: JP Morgan

US and EU post record high manufacturing activity as mass vaccination campaigns start to deliver on promise.

- Market sentiment improved Friday after the gauge for U.S. manufacturing activity reached a record high for the current month. The IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index hit an all-time high of 61.5 in May versus April's 60.5. Similarly, EU and UK manufacturing data were similarly robust at 56.9 and 62, respectively, also for May. In developed markets, these could be attributed to the mass vaccinations campaign finally allowing a convincing and sustainable reopening of the economy.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	21-May-21	14-May-21	29-Dec-20	+/-
UST 2Y	0.15	0.15	0.13	0.01
UST 5Y	0.82	0.81	0.38	0.01
UST 10Y	1.62	1.63	0.94	(0.01)
UST 20Y	2.23	2.23	1.47	(0.01)
UST 30Y	2.32	2.34	1.68	(0.02)
ROP 3Y	0.49	0.54	0.39	(0.05)
ROP 4Y	0.79	0.84	0.51	(0.05)
ROP 9Y	2.04	2.07	1.53	(0.02)
ROP 10Y	2.08	2.09	1.52	(0.00)
ROP 25Y	3.15	3.18	2.59	(0.02)
PHP	21-May-21	14-May-21	29-Dec-20	+/-
2Y	2.14	2.17	1.91	(0.04)
3Y	2.38	2.42	1.86	(0.05)
4Y	2.77	2.84	2.33	(0.07)
5Y	2.71	2.76	2.48	(0.06)
7Y	3.65	3.62	2.92	0.03
10Y	3.77	3.83	2.87	(0.06)
11Y	3.98	3.98	2.95	(0.00)
20Y	4.82	4.79	3.93	0.03
20Y*	5.05	4.79	3.94	0.27
USDPHP	47.945	47.810	52.580	0.135

Source: Bloomberg

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Philippine Equities

- The local equities bourse weakened further still last week, down -1.1% to close at 6,199.25. Despite the robust performance of index names this last 1Q corporate results reporting season, with 72% of index names so far meeting or beating both consensus and in-house expectations, market sentiment continues to reflect the disappointing pace of the vaccine roll-out and consequent inability of the economy to open up in a big way. The MSCI down-weight on Philippine names reflect this as well. In other news, the fiscal situation now deserves concern with BTR reporting that the country's debt-GDP ratio reached 60.4%, just above the 60% internationally recommended limit. This was also the highest debt-to-GDP level recorded in 16 years since the 65.7% logged in 2005. Authorities stated that vaccines would be made available to more priority groups as supplies stabilize. The so-called A4 and A5 groups include essential workers, front liners in government offices, uniformed personnel and the indigent. Per OCTA Research, no community transmission of the B.1.617.2 Covid-19 variant first seen in India has been detected locally so far, despite DoH finding 12 previous cases mostly from returning seafarers.

USD fixed income

- UST yields and credit spreads continue to move sideways: 10Y yields closed the week at 1.62%, Global HY spreads at +363bps, and ROPs at +40-50bps. The release of the FOMC minutes said that "a number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases." Market expectations are for tapering discussions to pick up in the next 1-2 meetings, however the actual tapering of asset purchases could start as early as Q1 next year.

PHP fixed income

- Peso bonds continue to trade sticky, with market interest still concentrated on the front end of the curve. 3Y yields closed the week at 2.40-45% levels, 5Y at 3.20-25%, and 7Y at 3.65%. The BTR was able to award another 45Bn in 7Y bonds at a 3.68% average; the 7Y bond is now more liquid as total issue size after the auction is 105bio.the FXTN 7-6. Looking at valuations over benchmark yields, bonds across the curve still remain a bit expensive. 10Y bonds could provide some good pickup at 4.50 levels vs current benchmark rates.

Outlook for the week

Stock market

- We expect the PSEi to continue to trade around the 6,200 level as investors await major catalysts and ahead of the MSCI Semi-Annual Index Rebalancing effective May 28. With the 1Q21 earnings season practically over, we expect analysts to issue downgrades/upgrades of their earnings forecasts for the FY21. No major macroeconomic release is expected next week.

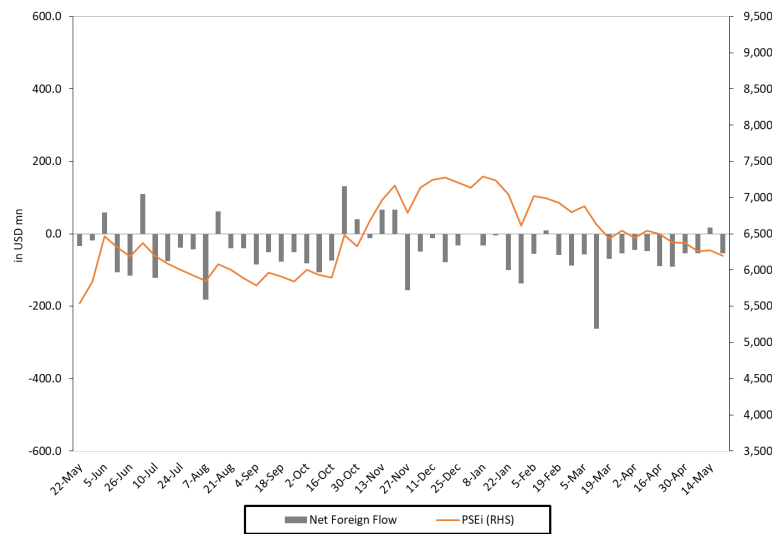
USD fixed income

- Expecting yields to move range-bound amidst a lack of immediate potential catalysts.

PHP fixed income

- Expecting peso yields to track moves of benchmark dollar rates sideways for now.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining and Oil +2.65%, Property +1.78%, Services +1.34%, Industrials +0.23%, Financials -1.92%, Conglomerates -3.16%

Leaders: PGOLD +11.5%, MEG +10.0%, JFC +5.7%, ALI +3%, SECB +2.9%

Laggards: SM -5.6%, URC -4.4%, BDO -3.8%, FGEN -3.5%, AC -3.4%

Source: Bloomberg, The Philippine Stock Exchange

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