

# US/EU equities climb on improving economic outlook

## 31 May 2021

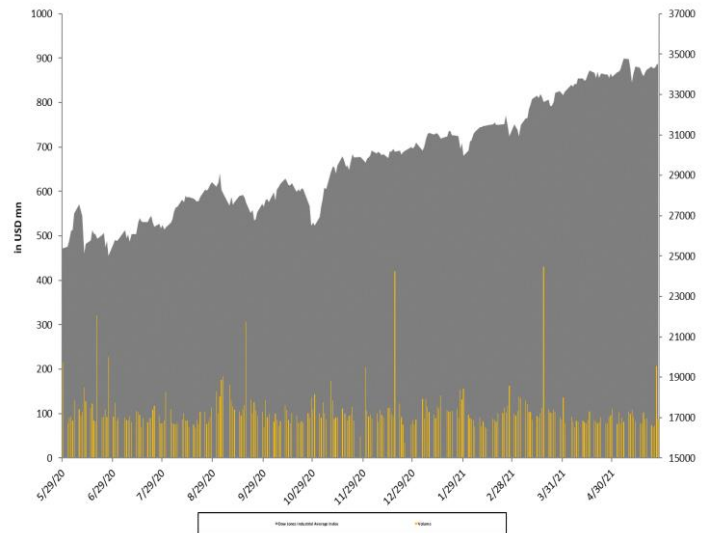
- US and EU equities close higher on investor optimism over economic growth prospects. PH stocks rise largely due to bargain hunting.
- US bonds rangebound amid mixed economic data. PH yield curve steepens on risk-off sentiment.
- US jobless claims beat expectations; US President Joe Biden unveils spending plan to invest in economy.

### US stocks rise on good economic data, President Biden's spending plan. EU equities lifted by reopening measures and vaccinerollout.

- US equities were in the green last week given strong labor market data which surpassed expectations and President Joe Biden's proposed 2022 budget to boost economic growth. Major US benchmarks all ended the week higher with the DJIA up 0.9% w-w, S&P 500 +1.2% w-w, and NASDAQ +2.1% w-w. Meanwhile, EU markets tracked US gains on investor optimism, supported by easing lockdown restrictions in select countries as well as the ramp-up of its vaccination program. The European Commission's measure of Eurozone economic sentiment hit a three-year high in May. Major EU indices were all up with the FTSE 100 +0.06%, DAX +0.53%, CAC 40 +1.53%, and STOXX Europe 600 +1.02% for the week.

Source: JP Morgan, Reuters

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

### Jobless claims better than expected; US President Joe Biden unveils USD6tn budget proposal

- The US Labor Department reported initial jobless claims reached a new low of 406,000 for the week ended May 22, better than the 425,000 expected by economists and a decline from 444,000 in the prior week. The improvement was attributed to the improving COVID-19 situation as businesses begin to reopen and unemployment levels decline.
- US President Joe Biden's proposed USD6tn budget plan for fiscal year 2022 would focus on increasing spending on infrastructure, education, and climate change initiatives. The plan is estimated to result in deficits of over USD1.3tn for a decade as per the NYT. The chair of Pres. Biden's Council of Economic Advisers Cecilia Rouse stated that the spending proposal is frontloaded, with the administration willing to live with budget deficits given low interest rates in order to invest in the economy. She added that she expects deficits to decline in the following years.

Source: JP Morgan, CNBC, Reuters

Interest rates				
USD	28-May-21	21-May-21	29-Dec-20	+/-
UST 2Y	0.14	0.15	0.13	(0.01)
UST 5Y	0.80	0.82	0.38	(0.02)
UST 10Y	1.59	1.62	0.94	(0.03)
UST 20Y	2.20	2.23	1.47	(0.03)
UST 30Y	2.28	2.32	1.68	(0.04)
ROP 3Y	0.42	0.49	0.39	(0.08)
ROP 4Y	0.68	0.79	0.51	(0.11)
ROP 9Y	1.95	2.04	1.53	(0.09)
ROP 10Y	2.02	2.08	1.52	(0.06)
ROP 25Y	3.13	3.15	2.59	(0.03)
PHP	28-May-21	21-May-21	29-Dec-20	+/-
2Y	2.10	2.14	1.91	(0.04)
3Y	2.33	2.38	1.86	(0.04)
4Y	2.79	2.77	2.33	0.03
5Y	2.73	2.71	2.48	0.02
7Y	3.78	3.65	2.92	0.13
10Y	3.80	3.77	2.87	0.03
11Y	4.03	3.98	2.95	0.05
20Y	4.91	4.82	3.93	0.10
20Y*	5.01	5.05	3.94	(0.04)
USDPHP	47.800	47.945	52.580	(0.145)

Source: Bloomberg

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## Philippine Equities

- The PSEi surged 7.5% w-w and closed at 6,665.14 last Friday, despite the expected over USD225mn outflow during the MSCI rebalancing (May 27 effectivity date) as investors bought up oversold names. Domestically, new COVID-19 average 7-day cases declined to 5,393 as of May 28 (from 5,705 as of May 21). Meanwhile, the government's April budget deficit narrowed by 84% to PHP44bn amid 55% growth in revenue along with 27% drop in expenditures. The jump in revenue is due to seasonality from filing of income tax while decrease in expenditures came from a high base amid pandemic response. We continue to monitor the rate of increase in new daily COVID-19 cases as well as the progress of the vaccine rollouts. As of May 25, 3.4mn Filipinos (or 3.2% of population) got their first dose while 1mn (or 1% of population) were fully vaccinated. Worth noting are the upcoming economic data releases which include May CPI (consensus at 4.5%) and April bank lending (prior -7.1%).

## USD fixed income

- Treasury yields continued to consolidate in the 1.55-1.65 range amidst mixed economic data releases. The Federal Reserve is firm in its view that inflation is "transitory" for the year. ROP spreads continue to be resilient amidst the rangebound move in benchmark rates. ROP spreads continue to hover near historical lows as well.

## PHP fixed income

- The local bond curve steepened as the BTR released its June borrowing schedule, ramping up total scheduled borrowing to 215Bn from 170bn last Month. T-bond auctions are now weekly, with 5Y, 7Y, 10Y, and 20Y bonds scheduled to be auctioned.

## Outlook for the week

### Stock market

- The PSEi may take a breather after the strong rally during the week. However, it will be interesting to see if buying momentum will be sustained around the 6,400 support level. With 1Q earnings just concluded, investors will turn back to the pace of COVID-19 vaccination and the trend in daily cases.

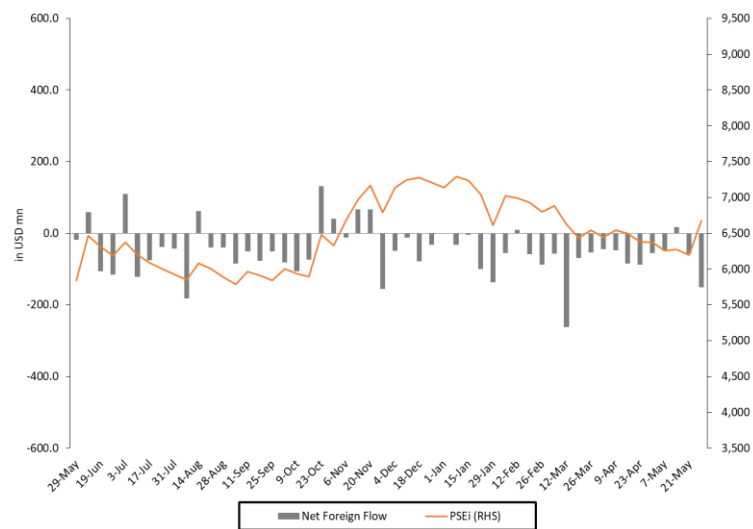
### USD fixed income

- Expecting yields to continue consolidating here ahead of the June FOMC meeting and payrolls numbers.

### PHP fixed income

- Expecting the curve to continue steepening as markets are wary of adding risk.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Conglomerates +9.5%, Property +9.09%, Industrials +4.8%, Services +3.93%, Financials +3.29%, Mining and Oil +1.13%

**Leaders:** JGS +18.5%, AEV +15.9%, AC +12.5%, SM +11.6%, SMPH +10.4%

**Laggards:** FGEN -5.7%, BDO -4.0%, AGI -3.8%, AP -3.2%, GLO 0.0%

Source: Bloomberg, The Philippine Stock Exchange