

US & EU equity markets break records, PH deflated by Delta

16 August 2021

- US and EU equity markets both gain on strong earnings results, PH index names delivering a mixed-bag
- US treasuries higher as consumer sentiment printed lower than expected, while local bonds to steepen due to high inflation expectations
- Ramifications of Afghanistan developments unclear, Philippines still tackling elevated viral cases with a possible lockdown extension

US indices hit all-time highs amidst modest weekly gains. European markets' gains of ten straight sessions a record.

- The Dow Jones and S&P hit all-time highs last Friday amidst a good set of results for names with online presence Disney, Opendoor (online residential real-estate), Palantir (data analysis), and Coinbase (crypto platform) all beat quarterly expectations for 2Q21. Earlier in the week, steel and construction names benefited from the US Senate's passing of a USD550bn infrastructure bill. The Dow Jones, S&P and Nasdaq were up +0.87%, +0.71%, -0.09%, week-on-week, respectively, while volatility was down -4.33% for the week.
- Markets in Europe continued gaining last week as the region shrugged-off Delta variant and rising inflation fears. Several names beat analyst estimates for 2Q21, with others signaling share buybacks and the resumption of dividend payments. The FTSE, STOXX 600, CAC and DAX were +1.34%, +1.25%, +1.16%, +1.37% week-on-week last week, respectively.

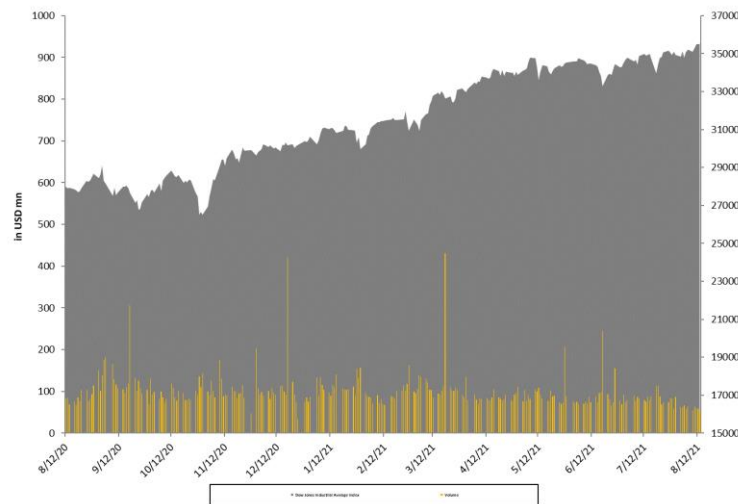
Source: JPM

US inflation moderating, jobless claims expectations met. Taliban enters Afghan capital, peaceful transition sought.

- Used US car prices rose only 0.2% in July vs 10%+ in June, with the metric tracked by the market for signs of elevated inflation. US import prices likewise moderated, with only a 0.3% rise in July vs the 1.1% gain in June. However, the producer price index rise of 0.9% last month outpaced expectations of +0.5%. The US also reported that jobless claims reached 375K last week, meeting estimates of a slight decline.
- As of yesterday, the Taliban entered the Afghan capital of Kabul. The group took control of the presidential palace with plans to declare a new "Islamic Emirate of Afghanistan". President Ashraf Ghani has left the country, and the US embassy was being evacuated on Sunday. Former president Hamid Karzai stated that he would form a coordinating council to manage a peaceful transition of power. Recall that the US army largely pulled-out of the country a month ago. World leaders are currently meeting to decide upon whether they would pull-out their diplomats.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	13-Aug-21	06-Aug-21	29-Dec-20	+/-
UST 2Y	0.21	0.21	0.13	(0.00)
UST 5Y	0.77	0.77	0.38	0.01
UST 10Y	1.28	1.30	0.94	(0.02)
UST 20Y	1.83	1.85	1.47	(0.02)
UST 30Y	1.93	1.95	1.68	(0.02)
ROP 3Y	0.63	0.61	0.44	0.02
ROP 4Y	0.67	0.72	0.48	(0.05)
ROP 9Y	1.83	1.91	1.52	(0.08)
ROP 10Y	1.88	1.94	1.52	(0.05)
ROP 24Y	2.89	2.96	2.59	(0.08)
PHP	13-Aug-21	06-Aug-21	29-Dec-20	+/-
2Y	1.92	1.93	1.96	(0.01)
3Y	2.15	2.11	1.86	0.04
4Y	2.53	2.47	2.48	0.06
5Y	2.53	2.47	2.48	0.06
7Y	3.65	3.59	2.92	0.06
10Y	3.73	3.73	2.87	0.00
11Y	3.85	3.83	2.95	0.02
20Y	4.76	4.71	3.94	0.04
20Y*	4.76	4.71	3.94	0.04
USDPHP	50.481	50.400	52.580	0.081

Source: Bloomberg

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Philippine Equities

- The PSEi fell 3.4% week-on-week to 6,320.19 last Friday as the 2Q21 Philippine GDP print showed a quarter-on-quarter slowdown in economic activity, with COVID-19 cases continuing to be elevated. Recall that the government reinstated tighter quarantine restrictions in the tail-end of the quarter due to rising viral cases. As of last week, the 7-day moving average for daily cases continued to trend higher at 10,827 vs 8,269 the week prior. Delta cases are continuing to increase, with the tally now surpassing 600.
- 2Q21 earnings season is coming to a close, with only GTCAP left to report amongst index names. Of the index names, approximately 28% have come ahead of in-house estimates, 34% in-line, and 38% behind. Vs street, 34% have come in ahead, 38% in-line, and 28% behind.
- The government is set to decide this week whether Metro Manila's ECQ, currently set until August 20, will be extended. Earlier news reports that Metro Manila mayors have agreed to extend ECQ until August 30 have been refuted by the MMDA. In macro news, the BSP kept the benchmark rate unchanged at 2% with June OFW remittance data expected to be released this week.

USD fixed income

- US Treasuries ended the week higher after the University of Michigan consumer sentiment report came in at 70.2 – the lowest level since 2011 and way below consensus expectation of 81.2. The 10Y yield fell back below 1.30% and ended the week at 1.28%. ROPs tracked UST direction for most of the trading week and prices ended the week 0.25-0.5pts higher.

PHP fixed income

- GS yield curve ended the week steeper. Long-dated bonds were sold off at the end of the week as market players chose to lighten their positions ahead of the upcoming 20Y auction.

Outlook for the week

Stock market

- We think a quick rebound in the PSEi early this week is likely given the surprise sell-off last Friday; however, selling pressures are to be expected as investors await the government's decision of the possible extension of ECQ in Metro Manila. Likewise, foreign and local investors may remain on a cautionary stance amid the increasing COVID-19 infections including the Delta cases. Given these factors, the PSEi may just straddle the 6,300 to 6,500 area over the short term.

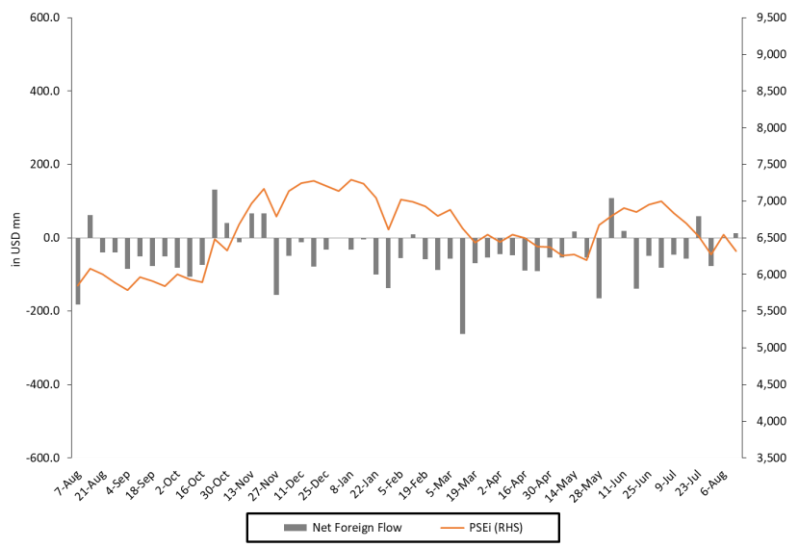
USD fixed income

- US 10Y yield will likely be maintained at the 1.20%-1.40% range for the week. Safe haven demand amid the current environment will continue to keep any strong upswing in yields capped. For this week, we will get retail sales numbers and the FOMC minutes.

PHP fixed income

- Local government bonds may continue to trade with a steepening bias given supply pressures and higher inflation expectations. USDPHP traded within the 50.30-50.50 range last week, but is poised to break higher given sustained corporate demand.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Holding Firms -5.34%, Services -4.07%, Mining & Oil -1.23%, Property -1.39%, Financials -0.85%, Industrial -0.78%

Leaders: MER +5.1%, AP +4.5%, MEG +3.3%, DMC +3.0%, BPI +2.9%

Laggards: BLOOM -11.8%, EMP -10.3%, AGI -10.0%, JGS -9.8%, AEV -8.8%

Source: Bloomberg, The Philippine Stock Exchange