

Global asset classes mixed amidst corp. earnings, delta risks

2 August 2021

- PH equities fall on reversion to strict lockdown, while US stocks down and EU markets mixed on corporate earnings and economic data.
- PH bonds decline following August auction schedule, US bonds rally on delta variant fears.
- US debt ceiling reinstated after two-year suspension; Senate to discuss passage of infra package this week.

US equities down, EU stocks mixed as investors digest corporate earnings results and economic data.

- US markets declined on Friday, with index heavyweight Amazon dragging investor sentiment following its quarterly revenue miss and weak earnings guidance. Meanwhile, the core personal consumption expenditures price index showed better than expected inflation data with a +3.5% y-y print in June (vs +3.6% Dow Jones estimate); US 2Q21 GDP grew 6.5% on an annualized basis and missed the 8.4% Dow Jones forecast; and weekly jobless claims were worse than projected. The S&P 500 was down 0.5% to 4,395.26 as it was also weighed by consumer discretionary and energy sectors, while Nasdaq and DJIA posted daily losses at 0.7% to 14,672.68 and 0.4% to 34,935.47, respectively. For the week, US benchmarks were in the red with S&P down 0.37%, Nasdaq -1.11%, and DJIA -0.36%. European stocks were likewise lower on Friday with FTSE 100 (-0.65%), DAX (-0.61%), CAC 40 (-0.32%), and Stoxx 600 (-0.45%) led by underperformance of cyclical sectors while defensive names gained. The EU economy posted 2% growth in 2Q21 while inflation rose to 2.2% and above the ECB's 2% target. On a weekly basis, major benchmarks were mixed with the FTSE 100 flat (+0.07%), DAX down 0.8%, CAC 40 up 0.67% and Stoxx 600 flat (+0.05%).

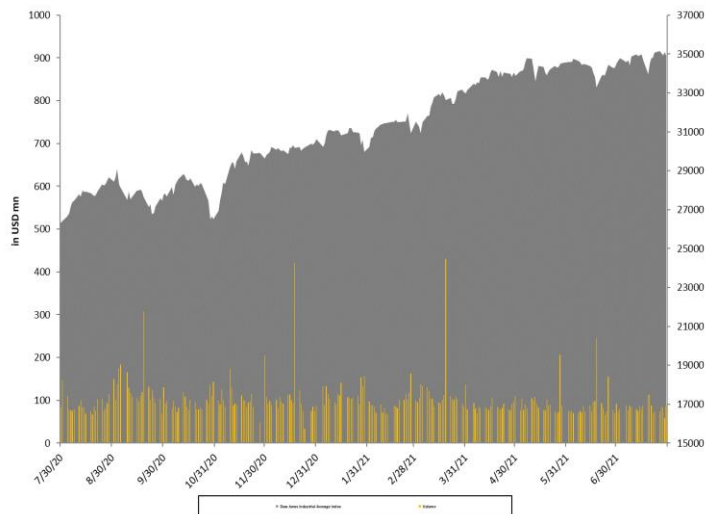
Source: JP Morgan, CNBC

US debt ceiling reinstated; Senate to discuss passage of infra package.

- The US debt ceiling has been reinstated after a two-year suspension, with the limit previously set at USD22tn in 2019. The debt ceiling will have to be adjusted given the recent increase in debt (USD28.5tn as of end-June), though Congress has yet to unveil its plans on how to avoid a potential default.
- The US Senate has substantially wrapped up negotiations for the USD550bn infrastructure package, with debates for passage likely to start this week. Meanwhile, Senator Chuck Schumer stated that the bipartisan bill could be submitted to the House "in a matter of days."

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	30-Jul-21	23-Jul-21	29-Dec-20	+/-
UST 2Y	0.18	0.20	0.13	0.01
UST 5Y	0.69	0.71	0.38	(0.01)
UST 10Y	1.22	1.28	0.94	(0.07)
UST 20Y	1.80	1.83	1.47	(0.07)
UST 30Y	1.89	1.92	1.68	(0.07)
ROP 3Y	0.54	0.51	0.44	0.08
ROP 4Y	0.64	0.61	0.48	0.01
ROP 9Y	1.91	1.87	1.52	(0.02)
ROP 10Y	1.98	1.96	1.52	(0.06)
ROP 24Y	2.99	2.97	2.59	(0.02)
PHP	30-Jul-21	23-Jul-21	29-Dec-20	+/-
2Y	1.94	1.98	1.91	(0.02)
3Y	2.24	2.28	1.86	(0.04)
4Y	2.54	2.55	2.33	0.03
5Y	2.54	2.55	2.48	(0.02)
7Y	3.64	3.60	2.92	0.03
10Y	3.67	3.69	2.87	0.07
11Y	3.83	3.82	2.95	0.12
20Y	4.72	4.75	3.93	(0.22)
20Y*	4.72	4.75	3.94	(0.05)
USDPHP	49.970	50.340	52.580	0.155

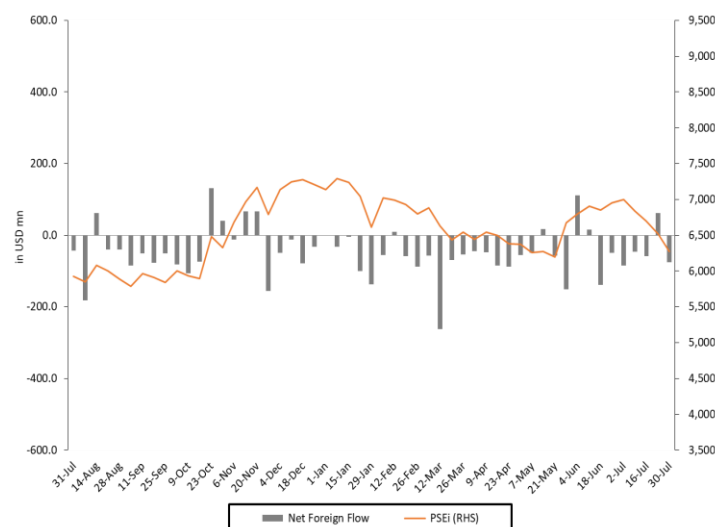
Source: Bloomberg

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Philippine Equities

- The PSEi declined 3.8% w-w to 6,270.23 following the government's announcement that Metro Manila would be placed under the strictest quarantine (ECQ) from August 6 to 20 to prevent the spread of the COVID-19 Delta variant. OCTA Research found that the COVID-19 reproduction number in Metro Manila rose from 1.21 to 1.29, and COVID-19 cases increased by 43% after Metro Manila recorded an average of 897 new cases per day from 18-24 July. Preliminary data from the Bureau of the Treasury (BTr) showed that the government's outstanding debt as of end-June increased by 23% y-y to Php11.17tn from Php9.05tn and inched up 0.9% m-m from Php11.07tn. We continue to monitor the rate of increase in new daily COVID-19 cases, especially the trend in the Delta variant cases. As many as 18.7mn Filipinos have received at least one vaccine dose while 32.9mn doses were already onshore. The 2Q21 corporate earnings season is set to pick up this week with index heavyweights BDO, SM PH, SM, ALI, and ICT slated to release their numbers. On the macro front, the July unemployment rate (prior: 7.70%) and inflation (median: 3.90%) will be released this week.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Conglomerates -4.35%, Financials -3.85%, Property -3.55%, Industrials -2.09%, Services -1.75%, Mining and Oil +3.05%
Leaders: EMP +16.5%, AGI +4.9%, RLC +2.4%, PGOLD +2.0%, RRHI +1.3%

Laggards: URC -7.5%, SMC -7.1%, BPI -6.9%, LTG -6.1%, SM PH -6.0%
 Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- Treasuries closed the week with a strong rally in the long-ends. 10Y yields ended the week 6bps lower at 1.22%. At these levels, the bond market is reflecting the uncertain impact of delta variant to US recovery as well as the lack of clarity on the Fed's taper timeline.

PHP fixed income

- The local GS market posted a brief rally after a strong re-issue of the 7-year bond. However, yields in the intermediates and long-ends reversed gains following the release of August auction schedule and announcement of lockdown schedule in NCR. Meanwhile, USDPHP closed the week at 49.97, reflecting expectations of a weaker economy.

Outlook for the week

Stock market

- We believe a follow-up selling is likely to happen next week as investors turn risk-off amid the rising Delta variant cases in the country and the return of the capital to the strictest quarantine measure next month. The PSEi could re-test the 6,100 support level; however, we expect bidders to appear in this area as Delta breakout scenario has already been anticipated in the past few weeks, in our view. Hence, we may start to increase EQ weight position, especially on the names which we think will pose resilient earnings growth despite the hard lockdowns (i.e. CNPF, WLCON, and CNVRG).

USD fixed income

- US 10Y Treasury yields will likely stay in the 1.20%-1.35% range until we see firm reversal in sentiment relating to spread of delta variant. Key data for the week would be the July NFP numbers which will give color on the state of US labor market.

PHP fixed income

- Local government bonds look supported at these levels. However, supply risk and July inflation expectations may keep bonds well-offered.