

Inflation woes, lockdown extension weigh on equities

4 October 2021

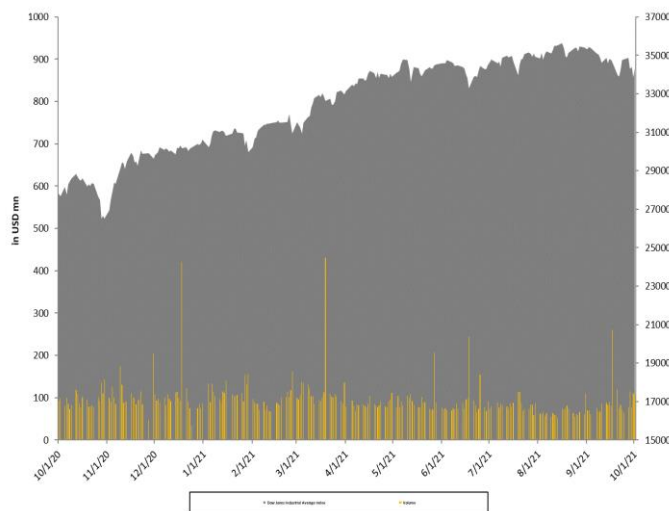
- US and EU stocks down on inflation concerns, PH equities likewise lower on lockdown extension until mid October.
- US Treasuries decline on Fed tapering and inflation concerns, while PH bonds drop on auction results and schedule.
- US manufacturing expands in September, EU factory activity slows down during the month. Supply constraints and inflationary pressures persist.

Inflation concerns weigh on US and EU equities

- US markets closed lower for the week amid inflation fears and expectations of US Federal Reserve tightening policy in the next few months. Fed Chair Jerome Powell said resolving tension between the central bank's two goals is the most urgent issue now as inflation is above target and slack remains in the labor market. The DJIA, S&P 500, and Nasdaq all closed lower w-w at -1.36%, -2.21%, and -3.20% while the VIX rose 19.15% w-w. European stocks likewise dropped last week as recently released factory activity data reflected economic headwinds from supply chain bottlenecks and inflationary pressures. Major benchmarks were down w-w with the FTSE 100 at -0.35%, DAX -2.42%, CAC 40 -1.82%, and Stoxx 600 -2.24%.

Source: JP Morgan, Reuters

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

US manufacturing further expands in September albeit input shortages and higher prices; EU factory activity slows down during the month

- Institute for Supply Management (ISM) manufacturing data for the US increased to 61.1 in September (from 59.9 in August) and ahead of economists' expectations of 59.5. However, factories reported longer delays in raw material deliveries due to supply shortages related to the pandemic while prices paid by manufacturers increased as well.
- The eurozone manufacturing purchasing managers index (PMI) declined to 58.6 in September (from 61.4 in August) according to IHS Markit. The drop during the month was attributed to supply constraints which caused delays in production schedules, softer demand conditions, and inflationary pressures.

Source: JP Morgan, Reuters

Interest rates				
USD	01-Oct-21	24-Sep-21	29-Dec-20	+/-
UST 2Y	0.26	0.27	0.13	(0.01)
UST 5Y	0.93	0.95	0.38	(0.02)
UST 10Y	1.46	1.45	0.94	0.01
UST 20Y	1.97	1.92	1.47	0.04
UST 30Y	2.03	1.98	1.68	0.05
ROP 3Y	0.83	0.78	0.44	0.05
ROP 4Y	1.09	1.03	0.48	0.07
ROP 9Y	2.10	1.96	1.52	0.14
ROP 10Y	2.14	1.99	1.52	0.15
ROP 24Y	3.11	3.07	2.59	0.04
PHP	01-Oct-21	24-Sep-21	29-Dec-20	+/-
2Y	1.99	1.90	1.86	0.09
3Y	2.27	2.16	1.86	0.11
4Y	2.77	2.59	2.48	0.18
5Y	2.77	2.59	2.48	0.18
7Y	3.98	3.84	2.92	0.14
10Y	3.86	3.85	2.87	0.01
11Y	4.43	4.25	2.95	0.18
20Y	4.98	4.97	3.94	0.00
20Y*	4.98	4.97	3.94	0.00
USDPHP	50.790	50.650	52.580	0.140

Source: Bloomberg

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Philippine Equities

- The PSEi declined 0.4% w-w to close the week at 6,923.60pts as investors remained cautious following the Inter-Agency Task Force's (IATF) announcement to extend Alert Level 4 in Metro Manila until 15 October. Note however, that the IATF increased the allowable indoor capacities for dine-in services, in-person religious services and personal care services to 20% of capacity, which can be increased up to 30% if the establishment was granted the safety seal certification. Meanwhile, President Duterte approved the vaccination of the general public, including adolescents, against COVID-19 beginning October 2021. In addition, vaccine czar Carlito Galvez, Jr. stated that the government is targeting to administer 55mn doses or 500,000-800,000 shots daily by October. On the macro front, the unemployment rate jumped to a 4-month high of 8.1% or 3.9mn unemployed persons in August from 6.9% (3.1mn) in July, according to Philippine Statistics Authority (PSA) labor force data released on 30 September. 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 45mn Filipinos have received at least one vaccine dose while 71.3mn doses were already onshore. Around 19.2% of the country's target population is now fully vaccinated. We expect investors will continue to monitor change in new COVID-19 cases trend following the transition to a new quarantine scheme in the National Capital Region. In terms of data releases, the September inflation (median: 5.10% y-y) figure will be published this Tuesday.

USD fixed income

- US Treasury yields ended the week 1-4 bps higher across the curve. The steepening move faded at the latter half of the week as market players weigh Fed tapering timeline alongside concerns on inflation and US debt drama.

PHP fixed income

- Local rates ended the week 8-20 bps higher due to 10-66 auction results, USTs action, weak peso, and release of October auction schedule which will focus on 5/6/7 year tenors.

Outlook for the week

Stock market

- We expect the bellwether index PSEi to retest the critical 7,000 level once again. The deceleration in daily new COVID-19 cases, the acceleration in vaccinations, and the gradual lifting of the quarantine restrictions should help support the case to break the 7,000 level. On the other hand, foreign selling may remain an overhang amid the continuing Evergrande crisis and the defensiveness ahead of the Fed tapering.

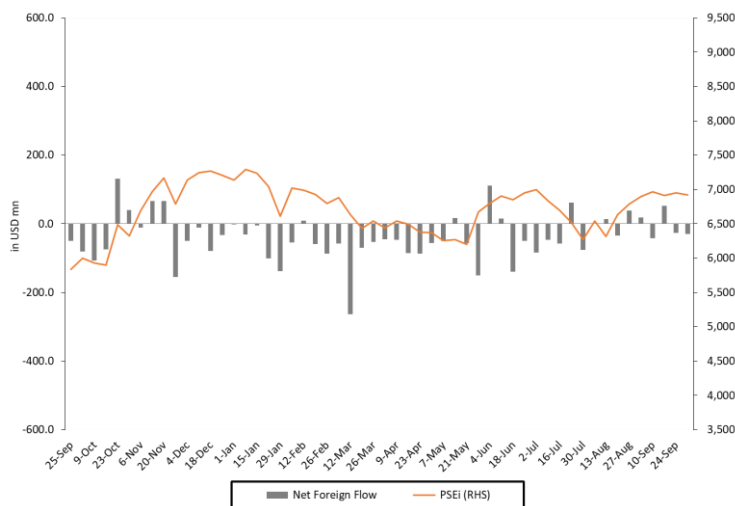
USD fixed income

- Key data release for the week will be the NFP print on Friday. A stronger-than-expected print will likely give Treasury yields another push higher.

PHP fixed income

- Market to maintain defensive, wait-and-see stance. Weekly auctions to help gauge market sentiment. September inflation print will be crucial.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Property -2.14%, Financials -1.01%, Mining and Oil -0.41%, Conglomerates -0.40%, Industrials +0.40%, Services +1.33%,
Leaders: CNVRG +9.45%, RRHI +5.31%, PGOLD +3.61%, URC +3.10%, ICT +2.31%

Laggards: AEV -5.77%, MPI -4.72%, LTG -4.36%, ALI -3.83%, TEL -3.53%

Source: Bloomberg, The Philippine Stock Exchange