

Global stocks trade sideways amid slump in bonds

11 October 2021

- Global equity bourses trade sideways with a slight upward bias on US Senate deal, waning energy fears, while PSEi also flat on one-off re-balance
- Local bond track UST yields higher as robust US labor indicators breed risk-on sentiment and inflationary concerns prompt reduction in duration
- US macro data generally positive last week, with better-than-expected US labor and production prints. EU production down on logistics crunch

US, EU equities trade sideways with an upward bias on US Senate deal on short-term budget extension, waning concerns on energy costs and ECB rhetoric supportive of markets

- US equity bourses traded sideways with a slight upward bias last week as positive momentum built up on growing optimism that US legislators would reach a breakthrough compromise to avoid an unprecedented default on its debt. US stocks peaked Thursday as a deal was finally announced by Senate Majority Leader Chuck Schumer on the Senate floor. The rally was pretty broad, lifting financials and consumer discretionary names like Nike and Home Depot, while the Tech sector built on its relief rally that began a bit earlier following last Monday's downturn. The Dow Jones, S&P 500 and Nasdaq were up 1.22%, 0.79% and 0.09% WoW, respectively, while volatility fell 11.5% on better market sentiment.
- Eurozone equities recovered starting mid-week after a sharp sell-down early last week on poor production data for Sept (PMI 56.2 vs 59 Aug) owing to concerns on inflation and supply chain disruptions. In Germany, the EU's largest economy, production fell -4% (worse than the -0.4% expected) MoM in Aug due to the same. Retail, auto-motive and other energy-linked names and sectors de-rated sharply, but similarly rebounded sharply starting Thursday as concerns over energy costs subsided and investors were reassured by the ECB's pledge to support markets after withdrawing emergency financial aid in the near future. The FTSE, CAC, DAX and STOXX were up 0.97%, 0.19%, 0.33% and 0.27% WoW, respectively.

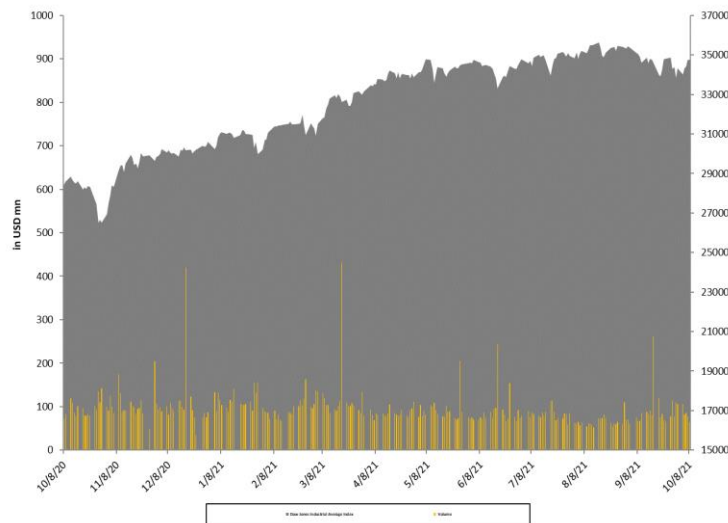
Source: JP Morgan

US macro data generally positive with better-than-expected PMI, private payroll and unemployment claims results

- There was a spate of market-friendly, positive macro developments including better-than-expected September PMI, US private payrolls and unemployment claims. September ISM PMI printed at 61.9 (vs. 59.9 consensus), private payrolls printed at 568,000 (vs. 428,000 consensus) and previous week's jobless claims were only 326,000 (vs. 348,000 consensus). The labor data suggests firms were able to fill open positions more easily as the Government withdrew unemployment insurance and in-person school classes resumed.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	08-Oct-21	01-Oct-21	29-Dec-20	+/-
UST 2Y	0.32	0.26	0.13	0.05
UST 5Y	1.06	0.93	0.38	0.13
UST 10Y	1.61	1.46	0.94	0.15
UST 20Y	2.11	1.97	1.47	0.14
UST 30Y	2.16	2.03	1.68	0.14
ROP 3Y	1.05	0.83	0.44	0.22
ROP 4Y	1.32	1.09	0.48	0.22
ROP 9Y	2.33	2.10	1.52	0.23
ROP 10Y	2.38	2.14	1.52	0.24
ROP 24Y	3.31	3.11	2.59	0.21
PHP	08-Oct-21	01-Oct-21	29-Dec-20	+/-
2Y	1.96	1.99	1.86	(0.04)
3Y	2.30	2.27	1.86	0.04
4Y	2.81	2.77	2.48	0.04
5Y	2.81	2.77	2.48	0.04
7Y	4.26	3.98	2.92	0.28
10Y	4.51	3.86	2.87	0.65
11Y	4.46	4.43	2.95	0.03
20Y	4.95	4.98	3.94	(0.03)
20Y*	4.95	4.98	3.94	(0.03)
USDPHP	50.580	50.790	52.580	(0.210)

Source: Bloomberg

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Philippine Equities

- The local equities bourse traded sideways last week, down -0.24% to close hardly changed at 6,906.86 at the end of last Friday. Inflation continued to moderate in September, at 4.8% y/y, following August's spike and base year impact for the transportation component leading to stable core inflation of 3.3%, still within the 2.9-3.5% band for the last 20 months. Despite inflation being contained and the broader moving average of new daily Covid-19 cases continuing to moderate, the abrupt removal of FGEN from the bourse in favor of WLCON (after KKR's 2nd round buy-in sent FGEN's float below the 15% minimum public float requirement) caused a massive sell-down canceling out the bourses' modest gains. In other news, the BSP decreed that digital banks, of which there are officially seven, will be held to the same standard and macro-prudential measures as thrift banks, which are subject to similar risks in terms of market segment and product type.
- For this week, We continue to monitor the rate of increase in new daily COVID-19 cases to see if the recent deceleration will be sustained. Vaccination rate has already breached the 20% benchmark and we'll see if there will be acceleration from here. Investors will also watch out for global inflation news as inflation-for-longer is looking like an emerging theme. On the macro front, the Aug Trade Balance (est: -US\$3.4bn) and Aug OFW remittances (est: +11.0% yoy) are due out this week.

USD fixed income

- US Treasuries bear steepened further last week. Yields continue to trek higher on the back of inflation expectations (i.e., less transient) and improving labor market. Both factors lend support to Fed's taper plan by year-end. ROPs ended the week 1-2 pts lower amid rising US Treasury yields and EM risk-off sentiment arising coming from concerns in China's property sector.

PHP fixed income

- Local rates rose 20-25 bps in 5-10Y bonds over the week, while the long-end (20Y) stayed resilient. Market players prefer to reduce duration given the backdrop of rising UST yields, while underperformance was seen in bonds that continue to face supply risk.

Outlook for the week

Stock market

- Following the failed break of the key 7,000 level last week, the PSEi may just consolidate in the coming days as investors stay defensive ahead of the 3Q21 earnings season and the news of inflation globally. Today, WLCON will debut in the PSEi index after replacing FGEN in an off-cycle rebalancing. Lastly, we expect some rotation to heavyweights AC, ALI, SM, and SMPH after investors sold down newcomer CNVRG last week.

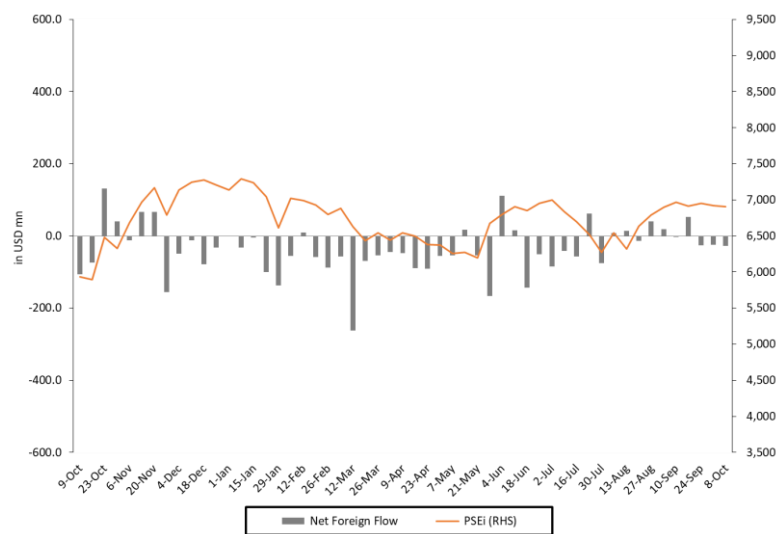
USD fixed income

- This week will be data-heavy. A higher-than-expected September inflation print will push yields another leg higher. It is likely to see the 10Y yield challenging 1.70%-1.75% resistance within the month.

PHP fixed income

- In the absence of local catalysts, market will continue to look at weekly auction results and USTs direction to guide sentiment and positioning.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Financials +3.88%, Mining and Oil +3.50%, Property +2.41%, Industrial +0.59%, Holding Firms -1.36%, Services -1.56%

Leaders: RRHI +15.8%, ACEN +10.1%, GLO +8.6%, GTCAP +5.8%, BDO +4.9

Laggards: FGEN -18.7%, LTG -8.5%, CNVRG -6.3%, PGOLD -6.0%, ICT -4.8%

Source: Bloomberg, The Philippine Stock Exchange