

US & EU rise on earnings releases; PH on looser restrictions

18 October 2021

- Earnings releases beat expectations for 3Q21 in the US and EU equity markets, PH started loosened quarantine restrictions over the weekend
- US inflation and Fed taper talks dominate the fixed income market while local investors position for upcoming auctions
- US retail sales and jobless claims better than expected, inflation pickup now broad in nature prompting possible Fed taper before year-end

US and EU equities driven by earnings beats. Commodities and high US inflation also playing into the markets.

- 3Q21 earnings season for the US kicked-off last week and drove market performance. Several names delivered good results including Goldman Sachs, Alcoa Corp, UnitedHealth, Taiwan Semiconductor Manufacturing, BlackRock, and Vimeo. The Dow Jones, S&P and Nasdaq were +1.58%, +1.82%, +2.18%, week-on-week, respectively, while volatility was -13.16% for the week.
- Across the pond several companies also released strong earnings prints. LVMH and Man Group both delivered good quarterly results while SAP revised its full-year revenue forecast upwards due to accelerating cloud sales. Oil and base metals' rally also instigated renewed interest in mining and energy names. The FTSE, STOXX 600, CAC and DAX were +1.95%, +2.65%, +2.55%, +2.51% week-over-week last week, respectively.

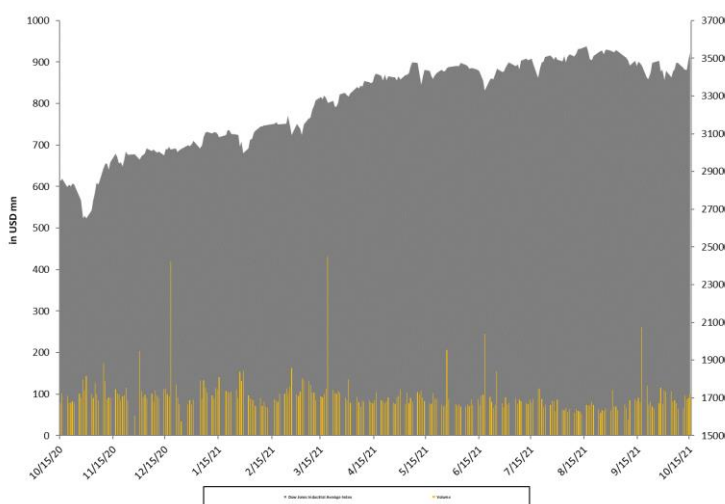
Source: JPM

US retail sales and jobless claims better than expected, taper possible next month. UK GDP beats while France reports CPI.

- Retail sales in the US registered 0.7% growth last month vs expectations of a 0.2% contraction, while jobless claims for last week were lower than estimated at 293K. Inflation was at 5.4% last month and rose 0.4% month-on-month driven by a broad array of components. The Fed's September minutes of the meeting showed that officials broadly agree that tapering should start mid-November or December given the inflation. US Fed President James Bullard noted that the high inflation may persist while the St. Louis branch president said that he wants tapering to begin next month.
- UK GDP registered 6.9% growth for August year-over-year, slightly higher than consensus forecast of 6.7%. Meanwhile, inflation for France was at 2.7% for September from an annual perspective and -0.2% month-on-month.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

| Interest rates | | | | |
|----------------|-----------|-----------|-----------|--------|
| USD | 15-Oct-21 | 08-Oct-21 | 29-Dec-20 | +/- |
| UST 2Y | 0.39 | 0.32 | 0.13 | 0.08 |
| UST 5Y | 1.13 | 1.06 | 0.38 | 0.07 |
| UST 10Y | 1.57 | 1.61 | 0.94 | (0.04) |
| UST 20Y | 2.01 | 2.11 | 1.47 | (0.11) |
| UST 30Y | 2.04 | 2.16 | 1.68 | (0.12) |
| ROP 2Y | 1.04 | 1.05 | 0.44 | (0.01) |
| ROP 3Y | 1.41 | 1.32 | 0.48 | 0.09 |
| ROP 9Y | 2.22 | 2.33 | 1.52 | (0.11) |
| ROP 10Y | 2.21 | 2.38 | 1.52 | (0.17) |
| ROP 24Y | 3.07 | 3.31 | 2.59 | (0.24) |
| PHP | 15-Oct-21 | 08-Oct-21 | 29-Dec-20 | +/- |
| 2Y | 2.13 | 1.96 | 1.86 | 0.18 |
| 3Y | 2.39 | 2.30 | 1.86 | 0.09 |
| 4Y | 3.04 | 2.81 | 2.48 | 0.23 |
| 5Y | 3.04 | 2.81 | 2.48 | 0.23 |
| 7Y | 4.37 | 4.26 | 2.92 | 0.11 |
| 10Y | 4.73 | 4.51 | 2.87 | 0.23 |
| 11Y | 4.86 | 4.46 | 2.95 | 0.40 |
| 20Y | 5.07 | 4.95 | 3.94 | 0.13 |
| 20Y* | 5.07 | 4.95 | 3.94 | 0.13 |
| USDPHP | 50.711 | 50.580 | 52.580 | 0.131 |

Source: Bloomberg

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Philippine Equities

- The PSEi rallied by 4.4% week-over-week to 7,213.46 last week as the government decided to loosen quarantine restrictions in Metro Manila. Metro Manila has been placed under alert level 3 as of last Saturday from its prior level 4 as COVID-19 cases have continued in a downtrend. Under the new alert level cinemas, theaters, and other social venues will be allowed to operate, the first time in more than a year. Unvaccinated people are also now allowed to eat in restaurants indoors. Age-based mobility restrictions are also no longer enforced, except for those imposed by local governments.
- The national 7-day average of new COVID-19 cases is now below 9K, more than 50% lower than last month's 18,720. Positivity was last reported at 12.5%, much lower than last month's 24.6%. Active cases is at 81,641 also less than half of last month's 165,790. The vaccination rate continues to pick-up at an average 469K jabs per day and should continue to accelerate with the arrival more doses.
- On macro news, the BSP reported last Friday that cash remittances rose 5.1% last August, marking the seventh straight month of growth. For this week, the balance of payments for September is expected to be released which last stood at negative USD1bn.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining & Oil +10.30%, Property +8.76%, Financials +7.27%, Holding Firms +4.13%, Industrial +2.42%, Services -0.81%,
Leaders: JFC +12.10%, SMPH +9.77%, ALI +9.45%, SECB +9.18%, BDO +9.09%

Laggards: WLCON -15.74%, ACEN -10.30%, CNVRG -5.36%, ICT -1.76%, TEL -0.84%

Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- US Treasuries bear flattened last week as the market contemplated the impact of an extended period of high inflation, alongside upcoming supply-demand shifts as the Fed tapers. ROPs ended the week in the green as prices rebounded strongly from lows established mid-week due to risk-off sentiment coming out of China.

PHP fixed income

- The local yield curve bear steepened further last week. Underperformance was led by the belly and intermediate parts of the curve following a weak 5-77 auction. At the end of the week, we saw some buying interest in the 10yr bond after hitting 4.95%.

Outlook for the week

Stock market

- We have an upward bias for the PSEi this week as investors focus on the increasing mobility in the country amid a declining COVID-19 cases trend. We also expect positioning ahead of the 3Q21 earning releases which should begin rolling-out this week, starting with the banks and utilities sectors. Lastly, we think that the 7,000 level will now be a support after the bellwether index as it closed above this key level last week – the first time since January.

USD fixed income

- The US10Y yield is looking to push higher after a brief pullback to 1.5% last week. We see immediate resistance at 1.65%.

PHP fixed income

- The market seems to be establishing support at these levels with some dip-buying observed in the long-end. However, selling pressure will likely linger on the 5-7yr tenor given the auction schedule this month.