

Equities outperform bonds, as risk-on sentiment resurfaces

13 December 2021

- Global equity bourses enjoyed a broad relief rally last week as new developments suggest Omicron variant is more benign than initially feared.
- Local bonds diverge from UST weakness as BTR scales back on adding more supply. UST prices soften following resumption of risk-on sentiment
- Recent US macro developments support risk-on sentiment notwithstanding high inflation print for November.

Global equities enjoy broad relief rally as Omicron variant fears appear to be over-stated.

- US bourses closed the week markedly higher after enjoying a relief rally off positive investor sentiment following scientific developments suggesting the Covid-19 Omicron variant is more than benign than previously thought and on positive labor data. US bourses regained the previous week's losses last Monday and powered through save for a mid-week breather as inflation came to the fore. Despite inflation printing at a 39-year high of 6.8% last November, markets continued to march upward Friday with the S&P setting a new record of 4,712. The Dow Jones, S&P 500 and Nasdaq were up 4.02%, 3.82% and 3.61% WoW, respectively, while volatility fell 39% over the same period.
- In Europe, markets followed US movement for the first half of the week, mounting a relief rally on positive developments with respect to the Omicron variant. Sectors took it in turn to rally, starting with battered travel and tourism, then Technology and commodities. However, the strong rallies petered out by mid-week as the UK's Boris Johnson reimposed some restrictions given the ongoing Covid outbreak. EU markets reacted differently to the high US inflation print late last week, sending the bourses even lower but still at a profit for the week. The FTSE, DAX, CAC and STOXX were up 2.38%, 2.99%, 3.37% and 2.87% WoW, respectively.

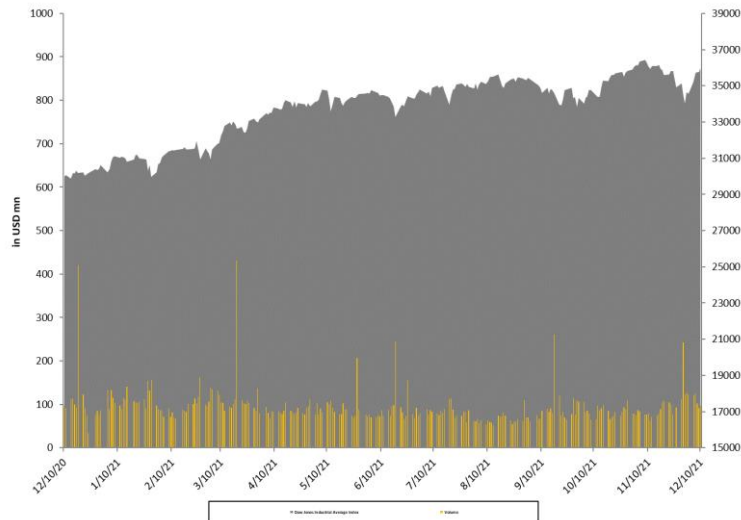
Source: JP Morgan

Generally positive US macro data last week despite high inflation

- With respect to US macro news this week, the US trade deficit for October narrowed for the first time since July as exports rebounded on further macro re-opening, and also reflective of rebounding demand from Europe, also on re-opening. As of October, the gap was just \$67.1Bn from \$81.4Bn in September. US productivity, meanwhile, fell 5.2% in 3Q, worse than consensus expectations. Labor data was positive, however, with US jobless claims at a 52-year low of 184,000, better than expected 220,000. Lastly, November inflation printed at a 39-year high of 6.8%, slightly higher than consensus forecast of 6.7%.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	10-Dec-21	03-Dec-21	29-Dec-20	+/-
UST 2Y	0.65	0.59	0.13	0.07
UST 5Y	1.25	1.13	0.38	0.12
UST 10Y	1.48	1.34	0.94	0.14
UST 20Y	1.91	1.76	1.47	0.15
UST 30Y	1.88	1.67	1.68	0.21
ROP 2Y	0.87	0.94	0.44	(0.07)
ROP 3Y	1.03	1.14	0.48	(0.11)
ROP 8Y	2.01	2.06	1.52	(0.05)
ROP 9Y	2.05	2.12	1.52	(0.08)
ROP 24Y	2.98	3.00	2.59	(0.02)
PHP	10-Dec-21	03-Dec-21	29-Dec-20	+/-
2Y	2.45	2.69	1.86	(0.24)
3Y	2.72	2.81	1.86	(0.09)
4Y	3.56	3.69	2.48	(0.13)
5Y	4.86	4.85	2.95	0.01
7Y	4.26	4.28	2.92	(0.02)
10Y	5.02	4.99	3.13	0.03
11Y	4.86	4.85	2.95	0.01
20Y	5.00	5.00	3.94	(0.00)
20Y*	5.00	5.00	3.94	(0.00)
USDPHP	50.350	50.360	52.580	(0.010)

Source: Bloomberg

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Philippine Equities

- The local equity bourse tracked overseas strength last week to recover lost ground largely for the same reasons. As news emerged that a third booster shot was effective in addressing the Covid-19 Omicron variant and as early cases proved to be more benign than the delta variant in terms of severe cases, the PSEi rallied 1.94% to 7,192.17. In addition, new macro-economic developments continue to be positive as inflation eased to 4.2% in November and unemployment fell to just 7.4% in October as the local economy reopened. In other corporate news, AC Energy and Infrastructure Corp. (ACEIC) has signed a P9.33-billion share purchase agreement with Arran Investment Pte. Ltd., an affiliate of Singapore-based GIC Private Ltd, for a 17.5% stake in the former's subsidiary AC Energy Corp. (ACEN).
- For this week, we expect FTSE rebalancing activities will take place on Dec 17 with MONDE as a new addition. Expected passive inflows into the name amount to about \$60m. Outflows from PCOMP heavyweights are also expected, OFW remittance numbers for the month of October are expected to rise about 3.4\$ and the BSP to hold rates steady at its upcoming meeting on December 16th.

USD fixed income

- US treasury yields saw a bounce higher as the Omicron variant of COVID-19 fears slowly subsides, despite the steepening move, the spread on the 2s10s and 10s30s continue to stay close to the lows.

PHP fixed income

- Local bonds saw a rally across the curve with focus on the belly, specifically on the RTB 5-14 moving as much as 25 bps lower, as the Bureau of Treasury scales back on issuing debt after rejecting all bids on the 10 year auction.

Outlook for the week

Stock market

- The PSEi may trade between 7000 (100d MA) and 7450 (Nov high) in the near-term with a downward bias due to FTSE rebalancing activities at the end of the week.

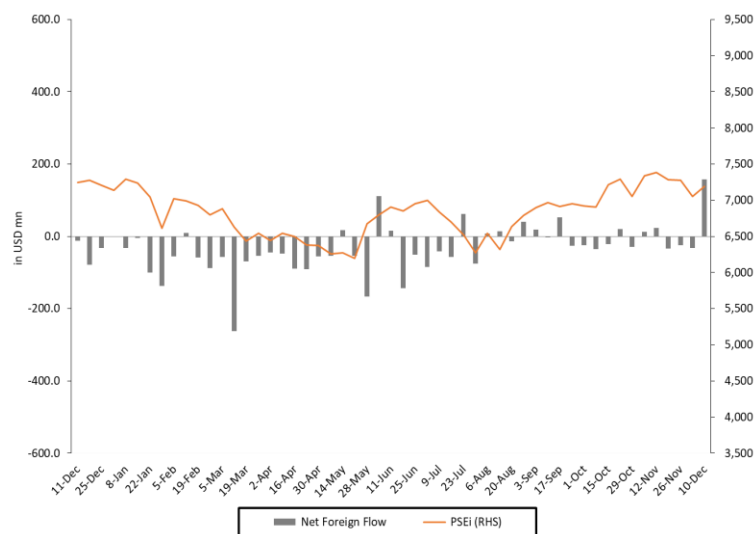
USD fixed income

- Market has ears on the upcoming FOMC meeting, with little catalyst, USTs may remain sideways near the 1.5% area for the 10Y and 1.9% area for the 30Y.

PHP fixed income

- Eyes are on this week's 7Y auction, if the BTr sees to reject all bids once again, the RTB 5-14 may rally further along with the rest of the curve.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Services (+2.86%), Conglomerates (+2.54%), Financials (+2.05%), Industrial (+0.88%), Property (+0.53%)

Leaders: CNVRG +1.5%, JGS +1.2%, WLCON +0.6%, ICT +0.6%, MER -0.4%

Laggards: BLOOM -11.4%, GLO -9.1%, MEG -9.1%, JFC -8.6%, LTG -8.6%

Source: Bloomberg, The Philippine Stock Exchange