

Markets driven by hawkish US Fed and the Omicron variant

10 January 2022

- Valuations coming into question for foreign equity markets, Philippines battered by spike in COVID-19 cases
- Global fixed income markets impacted by hawkish US Fed statements, Philippines included
- US Fed possibly looking to shrink its balance sheet with jobs creation falling short of expectations, several countries report record infections

US tech stocks affected by rising rate environment. Rotation to “value” sectors impacting EU markets.

- The rise in US Treasury yields have called equity valuations into question, with tech stocks in the crosshairs. Nvidia, AMD, Netflix, and Twilio were some of the biggest corrections last week within the Nasdaq. Also notable was the S&P’s first four-day losing streak since September. The Dow Jones, S&P and Nasdaq were -0.29%, -1.87%, -4.53%, week-on-week, respectively, while volatility was +8.94% for the week.
- Rising bond yields also impacted EU equity markets, which were primarily centered on talk over the US Fed’s direction. Record-high Euro Zone inflation did not help matters and raised more questions on the ECB’s policy moving forward. Tech, travel, real estate, and consumer sectors underperformed, while mining, banks, and insurance gained. The FTSE, STOXX 600, CAC and DAX were +1.36%, -0.32%, +0.93%, +0.40% week-over-week last week, respectively.

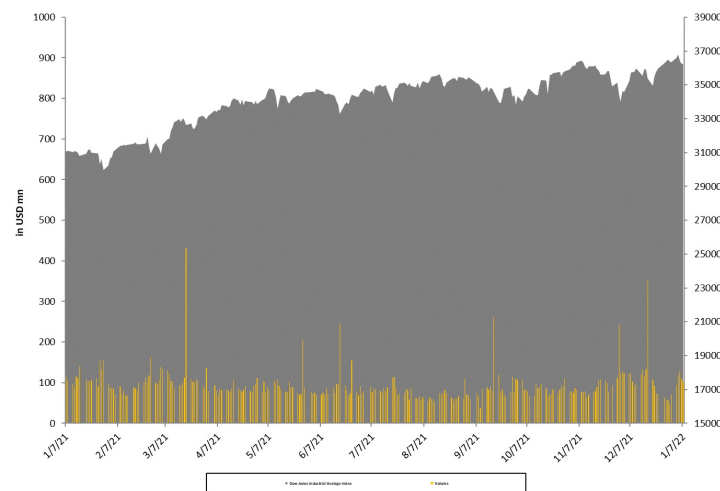
Source: JPM

US Fed minutes point to hawkish slant while jobs creation falters. Countries around the world dealing with COVID spike.

- The release of the FOMC’s December meeting minutes pointed to the institution possibly dialing-back economic help more rapidly than initially expected. Fed member James Bullard pointed to a possible rate hike as early as March while looking to shrink its balance sheet in preparation for higher inflation levels. The US also reported December jobs creation statistics last week, which fell below expectations by a large degree. Nonfarm payrolls increased 199K for the month, much lower than consensus estimates of +422K.
- Record-high COVID-19 cases were reported over the weekend for Mexico, the Philippines, New York, and Okinawa, while China reported on its first confirmed case of the Omicron variant. The UK is hopeful that it is past its Omicron peak but is currently facing a slew of worker absences.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	07-Jan-22	31-Dec-21	29-Dec-20	+/-
UST 2Y	0.86	0.73	0.13	0.13
UST 5Y	1.50	1.26	0.38	0.24
UST 10Y	1.76	1.51	0.94	0.25
UST 20Y	2.15	1.93	1.47	0.22
UST 30Y	2.12	1.90	1.68	0.21
ROP 3Y	0.97	0.90	0.44	0.07
ROP 4Y	1.16	0.95	0.48	0.21
ROP 9Y	2.29	2.02	1.52	0.27
ROP 10Y	2.28	2.02	1.52	0.26
ROP 24Y	3.27	2.93	2.59	0.33
PHP	07-Jan-22	31-Dec-21	29-Dec-20	+/-
2Y	2.52	2.59	1.86	(0.07)
3Y	2.52	2.59	1.86	(0.07)
4Y	3.93	3.82	2.48	0.11
5Y	4.77	4.73	2.95	0.04
7Y	4.55	4.49	2.92	0.06
10Y	4.69	4.61	3.13	0.08
11Y	4.77	4.73	2.95	0.04
20Y	4.94	5.07	3.94	(0.12)
20Y*	4.94	5.07	3.94	(0.12)
USDPHP	51.350	50.999	52.580	0.351

Source: Bloomberg

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Philippine Equities

- The PSEi was down 1.57% week-over-week to 7,011.11 last week amid a continued spike of new COVID-19 cases. Metro Manila was placed under Alert Level 3 last January 3, with 14 more areas also tightening to the same level as of yesterday. The hospital utilization threshold before Alert Level 4 is implemented has not yet been reached in Metro Manila but may rise rapidly according to the Department of Health. Alert Level 4 is when a blanket disallowance of interzonal travel is enforced for minors, seniors, and individuals who are pregnant or have comorbidities.
- Fresh COVID-19 cases have exceeded 25K since Saturday amid record-high positivity rates. 28,707 new infections were reported yesterday and marks the highest daily level since the pandemic began. The majority of new cases are originating from Metro Manila and surrounding provinces, with Octa Research highlighting that the NCR's positivity rate has exceeded 50% for the first time.
- December inflation slowed to 3.6% in December, vs the 4.2% registered for the prior month, and was the lowest print for the whole year. In other macro news, bank lending grew for the fourth-straight month last November at 4% and was the fastest pace seen since August. The Philippine's purchasing managers' index was also reported last week at 51.8 for December at a nine-month high.

USD fixed income

- The US Treasury yield curve bear steepened strongly to open the year. The market adjusted rate hike expectations following the release of the December FOMC minutes which showed a very hawkish Fed. The 10Y yield closed the week 26bps higher at 1.76%. In the ROP space, spreads widened 20-25bps across the curve.

PHP fixed income

- The local GS yield curve steepened, albeit at a smaller magnitude relative to US Treasuries. BSP Governor Diokno reiterated that the BSP will keep policy unchanged to support the economy.

Outlook for the week

Stock market

- We expect the PSEi to trade with a downward bias as new COVID-19 cases continue to surge in the coming days, creating fears that the government will put in place stricter measures that could slow down the economic recovery. The risk-off sentiment emanating from the expectation that the US Fed will start to raise rates may also dampen local equities' performance in the short-term. Nevertheless, we think that the 6,800-7,000 level could be an opportunity to load up on beta names as our view that the main index could reach 7,900 at the end of 2022 is intact.

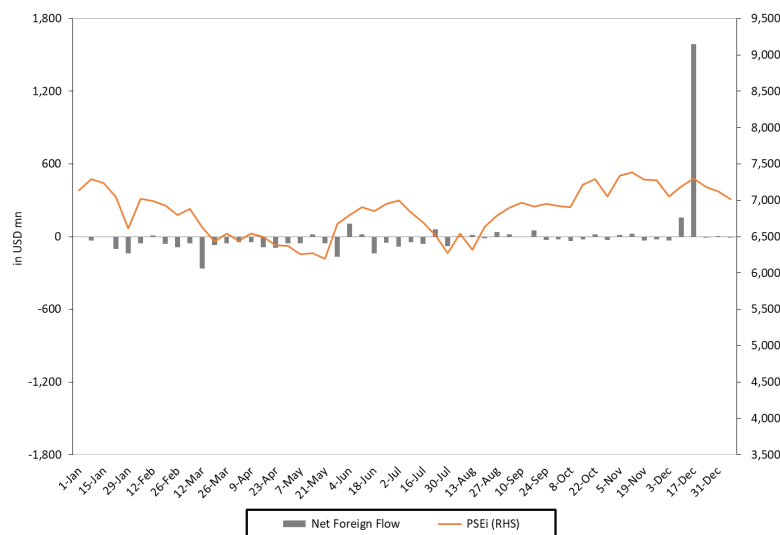
USD fixed income

- Key data release for the week will be the December CPI print. A higher-than-expected print can lead to another round of sell-off in US Treasuries. In terms of technicals, US Treasuries are oversold and due for a correction.

PHP fixed income

- Bearish movement in US Treasuries is keeping market players on the defensive. However, it is possible to see yields move lower soon with the improving macro backdrop (e.g., easing inflation) and BSP's consistently dovish stance.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Holding Firms +0.57%, Mining & Oil -0.80%, Financials -1.50%, Services -2.25%, Industrial -2.82%, Property -4.69%
Leaders: JGS +2.18%, MER +2.00%
Laggards: RRHI-19.14%, ACEN -16.55%, SECB -12.89%, BLOOM -6.97%, MEG -6.91%

Source: Bloomberg, The Philippine Stock Exchange