Risk-off hurts global stocks and local bonds, all others flat.
24 January 2022

- Global equity bourses uniformly fell across US and EU markets mainly on rising bond yields driven by inflation and imminent Fed rate hikes.
- USTs traded sideways as likely Fed hikes offset by haven demand on Omicron economic impact and US-Russia tension., but local bonds down.
- US mid-January jobless claims worse than expected as Omicron hits the real economy, NY State manufacturing down as well. All eyes on Fed.

Global equities uniformly lower as impending hawkish Fed decision sends bond yields spiking. Omicron and Ukraine as well.

- US bourses did very poorly last week, falling everyday during the truncated holiday week (Monday was MLK day) as selling pressure pent up and was released, come Tuesday, following the sharp rise in global bond yields. With Fed tightening all but certain, US markets contended with poor banking sector corporate results early last week and disappointing US labor data (higher-than-expected jobless claims) and weak NY State January manufacturing by mid-week. Though corporate earnings improved later in the week, this was largely ignored in face of elevated US government bond yields. This was reflected acutely in the Nasdaq, where several Technology underperformed markedly. The Dow Jones, S&P500 and Nasdaq fell -4.58%, -5.68% and -7.55% week-on-week, respectively, while volatility (VIX) was 50.34% higher on the week.
- Equity weakness in the US and rising global bond yields eventually caught up to EU markets by late last week after initially rallying early in the week on robust corporate results and the latest growth data from China proving positive. The expensive Tech sector saw the first hint of trouble as investors reflected rising bond yields, hawkish Fed and inflation concerns here first. Still, the mining, luxury retail, travel and leisure sectors more than offset the Tech weakness leading to a flat day-on-day performance as of mid week. By week-end, however, all EU sectors were in negative territory as inflation and hawkish Fed fears went center-stage as they had been in US markets all week. The FTSE, DAX, CAC and STOXX600 fell -0.65%, -1.76%, -1.59% and -3.19% week-on-week, respectively.

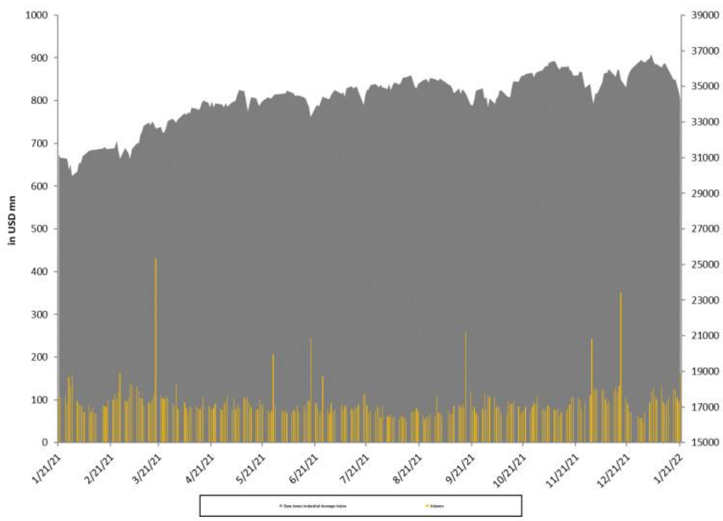
Source: JP Morgan

Risk-off sentiment prevails ahead of FOMC meet, Ukraine tension.

- Geopolitical tension and the economic impact of Omicron dominated the headlines this week. We witnessed a strange situation this week with risk-off sentiment stemming from a potential war brewing on the Ukrainian-Russian border, the economic impact of Omicron on the US economy starting to be reflected in higher-than-expected US mid-January jobless claims and soft NY state manufacturing reflected in higher Gold prices and yet risk assets like oil continued to climb owing to the potential disruption an Eastern European conflict could produce (Russia is the 2nd largest oil producer globally at 9.9 Mn bbl/day in 2020). By the weekend, spiking global bond yields priced in the imminence of Fed tightening, largely expected to be communicated this week.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	21-Jan-22	14-Jan-22	29-Dec-20	+/-
UST 2Y	1.00	0.97	0.13	0.03
UST 5Y	1.56	1.56	0.38	(0.00)
UST 10Y	1.76	1.78	0.94	(0.03)
UST 20Y	2.14	2.18	1.47	(0.05)
UST 30Y	2.07	2.12	1.68	(0.05)
ROP 3Y	1.09	1.10	0.44	(0.00)
ROP 4Y	1.38	1.28	0.48	0.10
ROP 9Y	2.37	2.39	1.52	(0.02)
ROP 10Y	2.40	2.41	1.52	(0.01)
ROP 24Y	3.21	3.29	2.59	(0.08)
PHP	21-Jan-22	14-Jan-22	29-Dec-20	+/-
2Y	2.34	2.25	1.86	0.10
3Y	2.34	2.25	1.86	0.10
4Y	3.82	3.72	2.48	0.10
5Y	4.76	4.78	2.95	(0.02)
7Y	4.65	4.70	2.92	(0.06)
10Y	4.92	4.59	3.13	0.33
11Y	4.76	4.78	2.95	(0.02)
20Y	5.06	4.98	3.94	0.08
20Y*	5.06	4.98	3.94	0.08
USDPHP	51.370	51.110	52.580	0.26

Source: Bloomberg

Sun Life Financial

Philippine Equities

- The local equity bourse gained 0.44% WoW to close at 7,261.34 last week as the Omicron wave showed signs of peaking. Top news on local politics was the Second Division of the Commission on Elections (Comelec) denying a petition seeking to cancel Marcos Jr.'s certificate of candidacy (COC) citing that his failure to file income tax returns does not constitute a crime of moral turpitude. But this is without prejudice to pending cases that have yet to be decided on in the coming weeks. Corporate news last week include ALI entering a P17.4bn property-for-share swap with AC and Mermac. ALI will issue 311.6mn in new shares (~2% dilution) to AC and Mermac at P55.8/sh. Assets include 50% ownership in Ayala Hotels, office units in Tower 1, and landbank in Davao, Laguna, and Pasig city.
- For this week, investors will be watching out for developments in COVID-19 cases, with Omicron variant possibly nearing its peak in Metro Manila as the rate of increase slows down. Announcements on updates on Metro Manila's Alert Level may be made towards the end of next week. Trading volume may improve next week as we approach the month end. On the macro front, investors will be watching out for the FY2021 GDP print due for release on Jan 27. Consensus expectations stand at +6.6%.

USD fixed income

- US Treasuries sold off at the start of the week on aggressive rate hike bets. However, safe haven demand stepped in and pushed prices higher on the latter half of the week amid the sell-off in US equities. 10Y yield closed the week at 1.76%, 2 bps richer WoW.

PHP fixed income

- The local GS curve bear-steepened, despite strong market reception on the new 10Y bond. There was aggressive selling across the curve with intermediate and long-end parts of the curve leading the underperformance.

Chart 2 - Philippine Stock Exchange Index

Source: Sun Life Financial Philippines

Sectors: Mining and Oil (+4.4%), Conglomerates (+1.80%), Industrial (+0.34%), Services (-0.17%), Financial (-0.21%), Property (-1.20%)

Leaders: AP (+7.61%), AEV (+4.92%), JGS (+3.33%), MER (+2.67%), AGI (+1.96%)

Laggards: ALI (-4.28%), WILCON (-2.81%), BLOOM (-2.69%), RLC (-1.99%), URC (-1.93%)

Source: Bloomberg, The Philippine Stock Exchange

Outlook for the week

Stock market

- With the strong performance this week, we expect the PSEi to take a breather in the coming days as new COVID-19 cases continue to register all-time highs. It might take two more weeks to see the peak number of cases and some investors might be tempted to take profit near the 7400-resistance level. However, any major dip should be taken as an opportunity to buy, especially close to 7k level. Our in-house PCOMP target for 2022 remains at 7,900.

USD fixed income

- Fed's statement in the upcoming FOMC meeting will heavily influence market direction for the week. We expect 10Y yield to trade in the 1.70%-1.90% range.

PHP fixed income

- Bonds in the long-end will continue to underperform given supply pressures. Spot will continue to trade in the 51-51.5 range.