SUN LIFE FINANCIAL INVESTMENTS WEEKLY

US up, EU and local market down; earnings results eyed

31 January 2022

- Tech rebound helps US equity market, EU and Philippine markets facing pressures; earnings results staring to influence movements
- Hawkish Fed influencing fixed income markets, appears mostly priced-in with local market also facing some supply pressures
- US Fed continues to signal for rising rates amid inflation concerns, recent rise in oil prices reach seven-year highs

Rebounding tech stocks helped US market. EU down for fourth consecutive week. Earnings releases drivers for both.

- US stocks rallied toward the weekend driven in part by recovering sentiment over tech names. Apple and Robinhood both gained strongly, with Apple also supported by strong quarterly revenue performance. Notable names that released results/guidance were Apple, Robinhood, Western Digital, Chevron, Caterpillar, and Mondelez. The Dow Jones, S&P and Nasdaq were +1.34%, +0.77%, +0.01%, week-on-week, respectively, while volatility was -4.12% for the week.

- Things were very different for the EU, with cross sectoral losses and a fourth straight weekly equity market loss for the region – last seen in March 2020. The region remains concerned over the US Fed possibly raising interest rates soon. Signify, H&M, and Henkel were some companies that released results. The FTSE, STOXX 600, CAC and DAX were -0.37%, -1.87%, -1.45%, -1.83% week-over-week last week, respectively.

Source: JPM

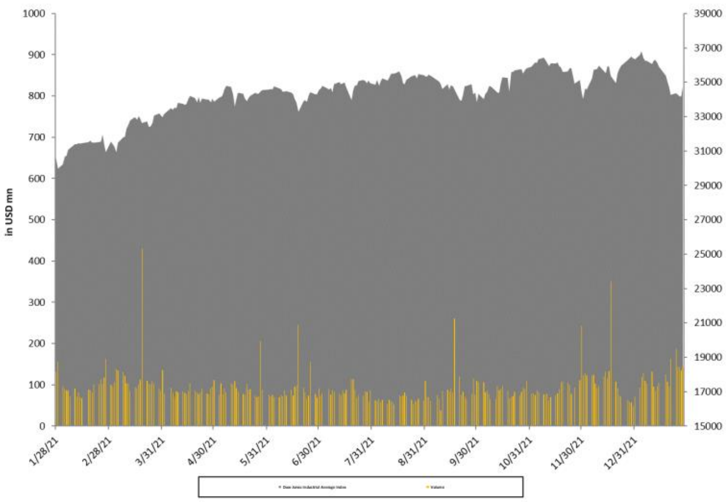
US Fed meetings continue to influence the markets. Oil rises on tight supply-demand dynamics.

- US Fed Chairman Powell suggested last week that the central bank has plenty of room to raise rates if needed. The money markets have started to factor-in almost five rate hikes from the Fed, with some speculating a front-loaded tightening of 50bps in March. This has also been supported by Atlanta Fed President Bostic's statements on possible measures if a more aggressive approach to tame inflation is needed. A 50bps raise in US rates has not been seen since 2000.

- Oil posted its sixth weekly advance last week and is now trading near seven-year highs. Diesel in particular is viewed to be vulnerable to price spikes as global stockpiles have slumped, while US refineries are focusing on gasoline and the EU starts to curb diesel output. Some respite may come soon though as the OPEC+ is expected to proceed with another 400K bbl output increase. The group is set to start its next meeting on February 2, with the potential output increase instituted in March.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	**28-Jan-22**	**21-Jan-22**	**31-Dec-21**	**+/-**
UST 2Y	1.16	1.00	0.73	0.16
UST 5Y	1.61	1.56	1.26	0.06
UST 10Y	1.77	1.76	1.51	0.01
UST 20Y	2.14	2.14	1.93	0.01
UST 30Y	2.07	2.07	1.90	0.00
ROP 3Y	1.31	1.09	0.91	0.22
ROP 4Y	1.52	1.38	0.98	0.13
ROP 9Y	2.50	2.37	2.02	0.13
ROP 10Y	2.52	2.40	2.00	0.12
ROP 24Y	3.32	3.21	2.94	0.11
PHP	**28-Jan-22**	**21-Jan-22**	**31-Dec-21**	**+/-**
2Y	2.42	2.34	2.59	0.08
3Y	2.42	2.34	2.59	0.08
4Y	3.97	3.82	3.82	0.15
5Y	4.78	4.76	4.71	0.02
7Y	4.92	4.65	4.49	0.28
10Y	4.96	4.92	4.69	0.04
11Y	4.78	4.76	4.71	0.02
20Y	4.94	5.06	5.07	(0.13)
20Y*	4.94	5.06	5.07	(0.13)
USDPHP	**51.230**	**51.370**	**52.580**	(0.14)

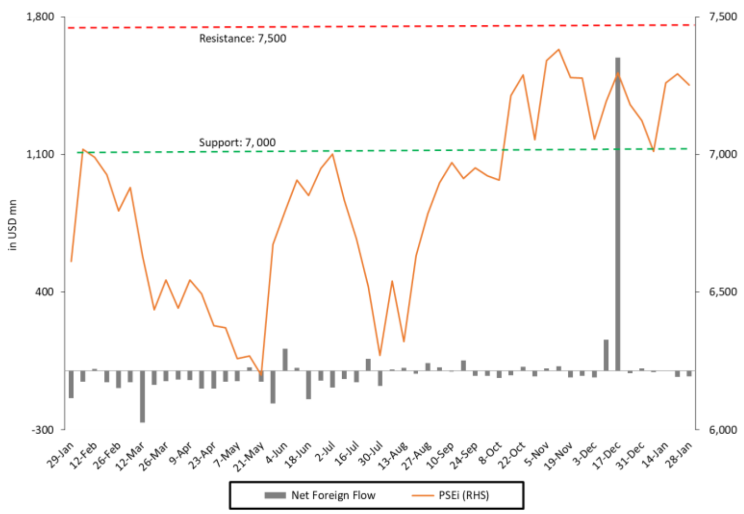
Source: Bloomberg

Sun Life Financial

Philippine Equities

- The PSEi was slightly down 0.57% week-over-week to 7,251.97 last week ahead of the government's decision to relax quarantine restrictions for Metro Manila yesterday. Starting February 1 Metro Manila will be placed under Alert Level 2, coming from Level 3, and is expected to last until February 15. Businesses will once again be allowed to operated at 50% indoor and 70% outdoor capacity for fully-vaccinated individuals. The government has classified Metro Manila as being at moderate risk from COVID-19, with OCTA Research hopeful that this will be at lowered to low risk in two weeks if infections continue to subside.
- The country reported 16,953 daily COVID-19 cases yesterday, much improved from the high of 32,744 last January 21. The reproduction rate in Metro Manila in particular has continued to fall and was last reported at 0.47. More importantly, 97.5% of all cases have been reported as being mild or asymptomatic.
- Philippine 4Q 2021 GDP growth was reported at 7.7% year-over-year last week, beating consensus estimates of 6.6%. This brought 2021 GDP growth to 5.6%, also ahead of consensus forecast. Last year's real GDP is only 4.5% off from 2019's pre-pandemic level. Growth was broad-based with consumer spending, the largest component, growing 7.5% last quarter.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Financials +2.17%, Industrial +1.93%, Services -1.02%, Property -1.65%, Holding Firms -1.77%, Mining & Oil -3.25%
Leaders: WLCON +7.40%, BPI +4.86%, BDO +3.47%, JFC +2.69%, MER +2.54%
Laggards: SECB -5.14%, RLC -4.06%, MEG -4.06%, JGS -3.63%, MPI -2.83%
Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- The US Treasury yield curve ended the week steeper following a very hawkish FOMC. Market is now pricing in 5 rate hikes for the year. ROPs ended the week at the wides with 10Y ROP spread at +78bps.

PHP fixed income

- The local GS yield bear flattened last week. Bonds were sold off by 7-15bps across the curve with underperformance led by the belly.

Outlook for the week

Stock market

- The local equity index remains above the 50-day, 100-day and 200-day moving averages which is a good sign. The next resistance remains around the 7,500 clip. Positive surprises in corporate earnings may be the catalyst that could catapult the index outside of this resistance – a possibility after the upside surprise in 4Q21 GDP. The threat of Omicron looks manageable at this point. We reiterate that any major dip should be taken as an opportunity to buy, especially close to the 7,000 level. Our in-house PCOMP target for 2022 remains at 7,900.

USD fixed income

- Markets will likely exhibit less volatility this week as the Fed's policy shift has already been priced-in. We expect 10Y yield to trade in the 1.70%-1.90% range.

PHP fixed income

- GS yields could see a brief rally with strong 5-77 auction results. However, recent ranges will likely be respected as supply pressure remains. Spot will continue to trade in the 51-51.5 range.