

Stocks, bonds trade sideways last week amid light volume

3 January 2022

- Global equity bourses made up for previous losses as investors bargain-hunted off recent lows and priced in more growth despite Omicron.
- US Treasuries traded sideways given light volume in 2021's last trading week. Local curve flattens as newer RTB issues sold ahead of new supply.
- Biden's \$2 trillion infra-stimulus plan runs into stiff opposition in the Senate over inflation, fails to pass into law by 2021.

Global equities recoup previous week's losses, despite Omicron, on growth optimism and bargain hunting.

- US bourses ended the last trading week of the year with mixed results as market focus continued to be on Omicron given the dearth of domestic macro-economic data releases and the light volume, globally, last week. Market action likely priced in the current Covid wave to peak by end-January. Omicron concerns have definitely come to the fore, eclipsing inflation and attendant Fed rate hike expectations since last week which likewise saw soft US equity performance. There was a hint of bargain-hunting last week as the Dow and S&P managed positive week-on-week returns, but Tech was still down. The Dow Jones and S&P were up 1.08% and 0.85%, WoW, respectively, while the Nasdaq was still slightly down by .05%. Volatility fell by 4.12% WoW.
- In Europe, meanwhile, equities rebounded from a 3-week low as expectations of broad-based growth supplanted fears over the worsening Omicron situation. With UK's Johnson refraining from imposing restrictions, the travel and leisure sector advanced, as did mining, energy and technology. The EU also approved another vaccine, Novavax, for adults, bringing vaccine options up to 5 for the region.

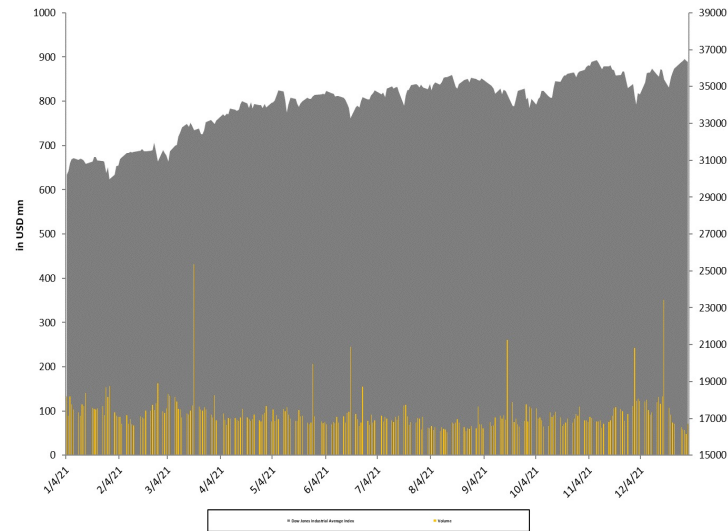
Source: JP Morgan

Inflation rules out passage of Biden's \$2Tn stimulus plan by 2021

- As 2021 came to a close, it became increasingly clear that Biden's \$2Tn stimulus package would not be approved last year over inflation concerns. Sen Joe Manchin (Democrat, WV) is a staunch opponent to the President's "Build Back Better" proposal. The 10-Year UST hit as low as 1.36% on Omicron, but later tempered to 1.5%.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	31-Dec-21	24-Dec-21	29-Dec-20	+/-
UST 2Y	0.73	0.69	0.13	0.04
UST 5Y	1.26	1.24	0.38	0.02
UST 10Y	1.51	1.49	0.94	0.02
UST 20Y	1.93	1.93	1.47	0.00
UST 30Y	1.90	1.91	1.68	(0.00)
ROP 3Y	0.90	0.94	0.44	(0.04)
ROP 4Y	0.95	1.04	0.48	(0.09)
ROP 9Y	2.02	2.00	1.52	0.02
ROP 10Y	2.02	2.04	1.52	(0.02)
ROP 24Y	2.93	2.98	2.59	(0.05)
PHP	24-Dec-21	17-Dec-21	29-Dec-20	+/-
2Y	2.59	2.49	1.85	0.10
3Y	2.59	2.49	1.86	0.10
4Y	3.82	3.91	2.30	(0.09)
5Y	4.73	4.77	2.95	(0.04)
7Y	4.49	4.50	2.92	(0.01)
10Y	4.61	4.80	3.00	(0.19)
11Y	4.73	4.77	2.95	(0.04)
20Y	5.07	5.02	3.94	0.05
20Y*	5.07	5.02	3.94	0.05
USDPHP	50.999	50.040	52.580	0.959

Source: Bloomberg

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Philippine Equities

- The local equity bourse ended 2021 just flat at -0.24% y/y to close at 7,122.63 as a Santa Claus rally failed to materialize after new daily Covid cases began to increase exponentially from below 200 cases well before Christmas to 2,961 by December 31st. The positivity rate had also more than tripled from less than 2% to 6.6% by year-end. Despite the index's WoW drop (-0.80%), most sectors actually ended in the green, except for Conglomerates (-2.38%, WoW) amid the sharp declines in PCOMP stocks. On the other hand, Mining sector heavily outperformed (+4.1% WoW) as investors reacted to the government's decision earlier this week to end the 4-year ban on open pit mining in order to help stimulate the pandemic-hit economy. On the macro front, the country's budget deficit increased to P128.7bn in November from P64.3bn the previous month.
- For this week, investors will continue monitoring the trend in new, daily COVID-19 cases, with Omicron variant possibly increasing new cases and positivity rate in the coming days. There could also be a bounce on beta names that were heavily sold off during the last trading day. On the macro front, December CPI will be released (Nov was at 4.2%) coupled with November trade balance data.

USD fixed income

- US Treasury yields moved sideways last week amid thin volume. We saw 10-Yr and 30-Yr yields close the year at 1.51% and 1.90%, respectively.

PHP fixed income

- In the local GS space, RTB 5-14 and 10-66 were the most actively traded bonds last week. Mixed action led to flattening of the curve as the new RTB was sold down ahead of fresh supply in 2022, while buying interest in 10-66 pushed yields lower. USDPHP ended the year at the high of 50.99, driven by strong corporate demand and dollar strength.

Outlook for the week

Stock market

- Given the recent surge in new cases of COVID-19 (Omicron variant), we expect market sentiment to be influenced by the trend in new cases especially after the holiday season. Market players might remain cautious if current trends in new cases and positivity rate continue. We see near-term support at the psychological 7,000 level as bargain hunters may start to emerge.

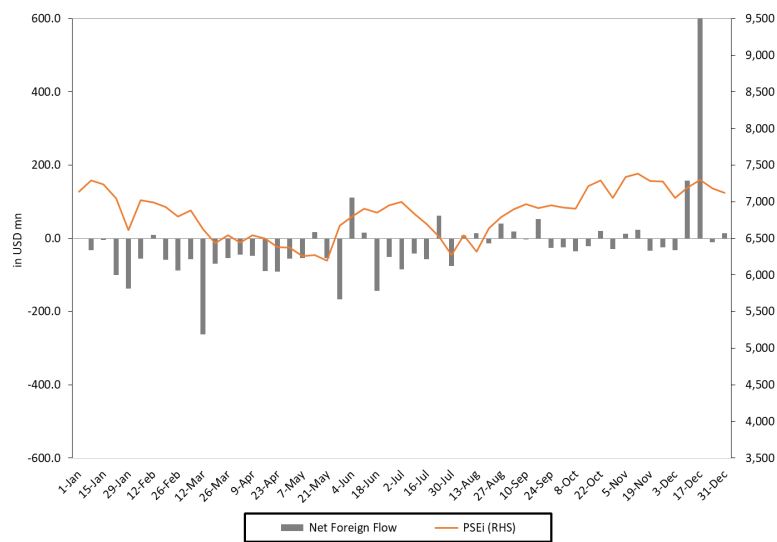
USD fixed income

- For the week ahead, we expect recent ranges (e.g., 1.40%-1.60% for 10Y yields) to hold. Rising COVID cases globally will continue to cap rallies in yields.

PHP fixed income

- Results of tomorrow's 7Y auction will provide fresh leads on market direction. Bond yields likely to tracks USTs direction for now. Updated range for USDPHP is 50.80-51.30.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining and Oil (+4.1%), Property (+0.87%), Services (+0.34%), Industrial (+0.18%), Financial (+0.16%), Conglos (-2.38%)

Leaders: ALI (+4.1%), ICT (+3.3%), RLC (+3.1%), PGOLD (+2.1%), MBT (+2.0%)

Laggards: GTCAP (-5.3%), AC (-4.6%), AP (-3.9%), AEV (-3.6%), CNVRG (-3.3%)

Source: Bloomberg, The Philippine Stock Exchange