

Global asset classes mixed as investors weigh strong US data and hawkish ECB

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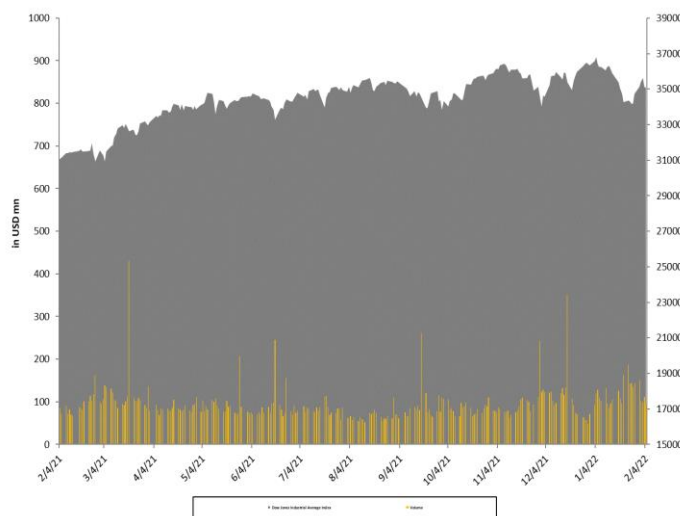
- US equities surge on upbeat corporate earnings, EU stocks decline as central bank turns hawkish, PH equities rise on reopening thematic
- UST yield curve bear flattens and 10Y yield closes at 1.90%, GS yield curve likewise bear flattens
- US adds more jobs than expected in January; ECB no longer ruling out interest rate hike in 2022

US stocks rise on strong corporate earnings results, EU stocks fall as central bank pivots towards hawkish stance

- US equities rallied last week as investors digested positive corporate earnings results led by tech companies. Amazon posted its best one-day gain since 2015 and drove benchmark gains on strong earnings due to its cloud computing division and stake in electric vehicle maker Rivian as well as its announcement to raise prices by 17% for its Prime membership. The DJIA, S&P 500, and Nasdaq all closed in the green at +1.05% w-w, +1.55%, and +2.38% while the VIX dropped 16.05% w-w. European stocks however, slumped on investor concerns over further tightening by the region's central bank. Major benchmarks were mostly down w-w with the DAX -1.43%, CAC 40 -0.21%, and Stoxx 600 -0.73% while FTSE 100 was up 0.67%.

Source: JP Morgan, Financial Times

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

US jobs report beats expectations; ECB no longer ruling out interest rate hike in 2022

- According to the January jobs report, the US added 467,000 new jobs during the month and surpassed consensus estimates (+150,000 in a Dow Jones poll). The latest print would have been higher if not for the Omicron surge as per the Labor Department. Meanwhile, the unemployment rate increased to 4% in Jan 2022 (vs 3.9% in Dec 2021) as more people joined the workforce while wages grew 5.7% in Jan (vs 3% pre-pandemic average).
- European Central Bank (ECB) President Christine Lagarde said, "Compared with our expectations in December, risks to the inflation outlook are tilted to the upside, particularly in the near term." She also did not repeat her previous guidance that an interest rate hike this year was very unlikely. Lagarde stated that the sequence of the ECB's future policy moves remain unchanged; therefore, asset purchases which are currently set to run indefinitely, will have to end before implementing any rate hikes. She added that the March meeting will be critical as new economic forecasts could provide the reasoning for any policy move.

Source: JP Morgan, Wall Street Journal, Reuters

Interest rates				
USD	04-Feb-22	28-Jan-22	31-Dec-21	+/-
UST 2Y	1.31	1.16	0.73	0.15
UST 5Y	1.77	1.61	1.26	0.16
UST 10Y	1.91	1.77	1.51	0.14
UST 20Y	2.27	2.14	1.93	0.13
UST 30Y	2.21	2.07	1.90	0.14
ROP 3Y	1.60	1.31	0.91	0.28
ROP 4Y	1.69	1.52	0.98	0.17
ROP 9Y	2.68	2.50	2.02	0.18
ROP 10Y	2.71	2.52	2.00	0.19
ROP 24Y	3.49	3.32	2.94	0.17
PHP	04-Feb-22	28-Jan-22	31-Dec-21	+/-
2Y	2.45	2.42	2.59	0.03
3Y	2.45	2.42	2.59	0.03
4Y	3.94	3.97	3.82	(0.03)
5Y	4.74	4.78	4.71	(0.04)
7Y	4.68	4.92	4.49	(0.25)
10Y	4.85	4.96	4.69	(0.11)
11Y	4.74	4.78	4.71	(0.04)
20Y	5.09	4.94	5.07	0.15
20Y*	5.09	4.94	5.07	0.15
USDPHP	51.140	51.230	52.580	(0.09)

Source: Bloomberg

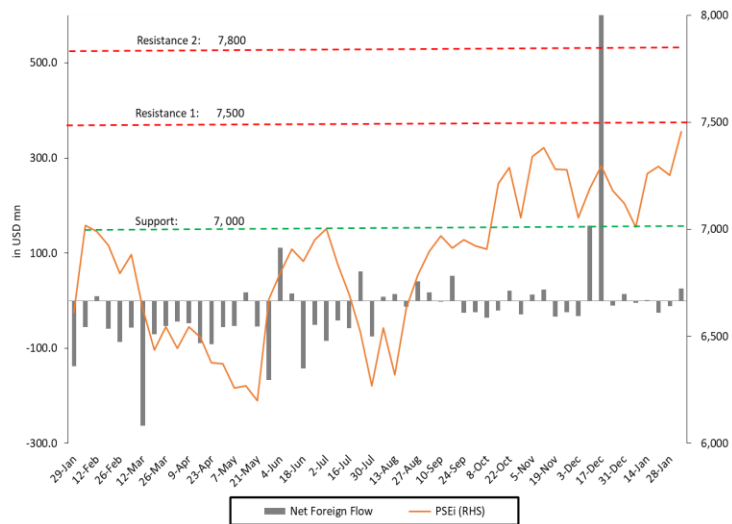
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Philippine Equities

- The PSEi gained 2.82% w-w to end the week at 7,456.35pts on bullish investor sentiment given the government’s decision to loosen lockdown restrictions amidst declining COVID-19 cases. Metro Manila and seven other provinces will revert to Alert Level 2 from Feb 1 to 15, with daily cases and positivity rates already having quickly reversed from the post-holidays Omicron surge. Philippine inflation sustained its downward trend to 3.0% in Jan 2022 from the revised 3.2% in Dec 2021. The food and non-alcoholic beverages was stable at 1.6% from the previous month but the slowdown in headline inflation was due to lower annual increase in housing, water, electricity, gas and other fuels at 4.5% (Dec 2021: 5.1%) and alcoholic beverages and tobacco at 5.6% (Dec 2021: 6.2%). Results of the review of PSEI rebalancing covering the period Jan to Dec 2021 was released shortly after market closed. The PSE memo showed MONDE (+0.37%) and EMP (+1.25%) will be added and in effect replace BLOOM (-0.66%) and RRHI (+0.87%). All changes will take effect on Feb 14, 2022. Investors will continue to watch out for the COVID-19 cases trend – a sustained downward move will increase the likelihood of the PSEi breaking the 7,500 barrier. On the other hand, markets will stay alert with regards to signals from the US Fed’s impending rate hike. The Dec unemployment rate (prior: 6.5%) will be released next week.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Property +6.43%, Mining & Oil +3.57%, Financials +2.49%, Holding Firms +2.44%, Industrial +1.97%, Services +0.46%

Leaders: SECB +8.93%, ALI +8.48%, MER +6.81%, AP +6.51%, RLC +6.47%

Laggards: CNVRG -8.05%, WLCON -2.18%, SMC -1.87%, GLO -1.85%, LTG -1.51%

Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- US Treasuries sold off anew and yield curve bear flattened after the communication of ECB’s hawkish stance and a very strong jobs report. The 10Y yield ended the week at 1.90%, and market is now pricing in 5 rate hikes for 2022.

PHP fixed income

- GS yield curve bear flattened with the belly underperforming on the back of higher than expected CPI print, while flows were supportive of 10Y bonds.

Outlook for the week

Stock market

- We expect the bellwether index PSEi to stay well supported between the 7,400-7,500 area as local COVID-19 cases continue to abate. On the other hand, the US tech stocks selloff and the wait-and-see attitude ahead of the Fed rate hike may limit upside in the near term. Hence, our bias is for local equities market to just trade sideways in the next few weeks. Nevertheless, the FY 2021 corporate earnings results have just started and major surprises from index heavyweights could finally topple the 7,500 barrier.

USD fixed income

- Key data for the week will be the January CPI print. Evidence of slowing inflation will be welcomed by the market and will cap any upward movement in Treasury yields.

PHP fixed income

- GS yields will likely maintain sideways action within recent ranges as supply remains a concern and uptrend direction of US Treasuries remains intact.

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