

Broad downturn in all markets and assets due to high US CPI

14 February 2022

- Higher than expected US January inflation put an early end to US and EU equity market relief rallies. Local equities fall on profit-taking.
- Both USTs and local bond yields spiked owing to higher-than-expected US January CPI, but haven demand from (Ukraine-Russia) partly offset it.
- High US inflation cementing Fed’s case for early tightening, seeping into poor US consumer sentiment in February.

Sky-high US inflation print curb relief rally in US and EU early last week. Uneven impact on Euro markets lead to mixed results

- US bourses mounted a short-lived relief rally early last week only to be cut short by higher-than-expected inflation supporting the already hawkish stance of the Fed and the market. US markets rallied from Monday to Wednesday as wave upon wave of positive 4Q/full year 2021 earnings results were considered by investors, particularly reflected in the technology-heavy Nasdaq index. By Thursday, investors abruptly cut risk as y/y US inflation printed at 7.5% last January, a 40-year high, cementing the Fed’s argument/rhetoric for faster than expected rate hikes. MoM Jan inflation inched up 0.6%, while core inflation printed at 6%. A deterioration in the geo-political situation in Eastern Europe sent US bourses even lower as oil spiked and haven appetite for USTs surfaced, sending the 10-Year back down to 1.93% (from around 2%). The S&P, Dow Jones and Nasdaq fell by -1.82%, -1% and -2.18%, respectively, while volatility was up 18% WoW.
- Some European equity markets managed to outperform this week despite a similar mid-week reversal of fortune, also due to the higher-than-expected US inflation print. The impact on EU markets was quite uneven with some outperformers (automotive, consumer, travel & leisure sectors, earnings beats) managing to eke out weekly gains. News flow was mixed with German industrial production sliding -0.3% last December (vs. +0.4% estimate) early in the week in contrast to word of a more dovish French central bank questioning the fast pace of rate hikes this year emerging mid-week. The DAX and FTSE were up 2.16% and 1.92%, respectively, while the STOXX 600 was just flat (0.72%) while the CAC was down -1.36%.

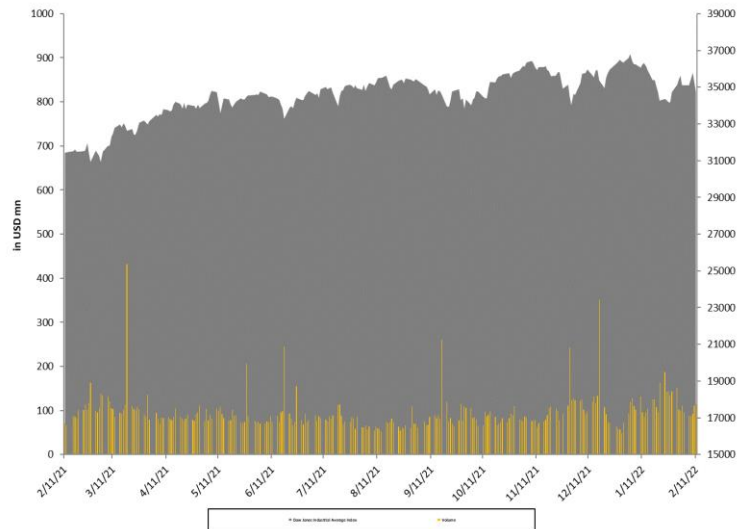
Source: JP Morgan

Fed’s hawkish rhetoric and US inflation hurt consumer sentiment.

- The Fed’s hawkish rhetoric (Bullard) and general stance was main theme last week and seemed to harden as the US January inflation data came in at a 40-year high of 7.5%. Houses like Goldman Sachs are raised their 10-Year outlook from 2% to 2.25% and end-2023 level to 2.45% (from 2.3%). With runaway inflation now on the radar of not just Powell, but also Biden, expectations of a whole point hike by June are firmer. It seems this made its way into consumer sentiment (University of Michigan), which as of February was lower at 61.7 compared to 67.2 in January to miss expectations.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	11-Feb-22	04-Feb-22	31-Dec-21	+/-
UST 2Y	1.50	1.31	0.73	0.19
UST 5Y	1.85	1.77	1.26	0.09
UST 10Y	1.94	1.91	1.51	0.03
UST 20Y	2.30	2.27	1.93	0.03
UST 30Y	2.24	2.21	1.90	0.03
ROP 3Y	1.82	1.60	0.91	0.22
ROP 4Y	1.81	1.69	0.98	0.13
ROP 9Y	2.78	2.68	2.02	0.10
ROP 10Y	2.75	2.71	2.00	0.04
ROP 24Y	3.52	3.49	2.94	0.03
PHP	11-Feb-22	04-Feb-22	31-Dec-21	+/-
2Y	2.49	2.45	2.59	0.04
3Y	2.49	2.45	2.59	0.04
4Y	4.15	3.94	3.82	0.21
5Y	5.27	4.74	4.71	0.53
7Y	4.89	4.68	4.49	0.21
10Y	5.33	4.85	4.69	0.48
11Y	5.27	4.74	4.71	0.53
20Y	5.23	5.09	5.07	0.14
20Y*	5.23	5.09	5.07	0.14
USDPHP	51.340	51.140	52.580	0.20

Source: Bloomberg

DISCLAIMER: This material is for information purposes only and is subject to change at any time without notice. Sun Life of Canada (Philippines), Inc. does not guarantee its accuracy, completeness, correctness or timeliness for any purpose or reason. This information is given in summary form and does not purport to be complete and should not be considered as advice or recommendation in relation to your holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. You may not revise, transform, or build upon this material without prior written consent of Sun Life of Canada (Philippines), Inc. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant documentation and in particular, you should seek independent financial advice from your Sun Life Financial Advisor.



Philippine Equities

- The local equity bourse succumbed to profit-taking last week as the Feb 11 index-rebalancing coupled with increasingly hawkish Fed commentary sent the PSEi down -2.5% WoW to 7,270.36. Investors chose to lock in gains on MONDE and EMP, which were added to the index, replacing RRHI and BLOOM. Although members of the FOMC, like Bullard, were more vocally calling for faster-than-expected monetary tightening by the Fed, net foreign buying (PSEi) last week was still observed at \$111.6Mn. The Fed has been signaling the need to hike rates to curb runaway inflation, which hit 7.5% last January (the highest in 40 years), sending the 10-Yr UST yield north of 2%. Local earnings supported better market performance, though, with JFC and GLO ahead and in-line with consensus full-year estimates, respectively.
- For this week, investors will keep an eye on the alert level for Feb 16 onward, optimistic that it could be lowered to Level 1 as Covid conditions seem to warrant. Also, more 4Q and full-year corporate results are due out this week, possibly luring back foreign outflows into big-cap names post the re-balancing last week. BSP is widely expected not to change the policy rate (now 2%) at their Feb 17th meeting this week. Also, December OFW remittance data is due out this week.

USD fixed income

- US Treasury yield curve bear steepened further after a higher-than-expected CPI print. The 10Y yield pushed above 2% after the news, but fell to 1.94% at the close of the week as sentiment turned risk-off given the heightened tension in the Russia-Ukraine situation.

PHP fixed income

- GS yield curve bear steepened following the result of the 10-67 auction which saw BTr award bids as much as 20 bps higher than market, and the announcement of a 5Y RTB issuance.

Outlook for the week

Stockmarket

- The PSEi is still trading above the 50d MA of 7,232 which is seen as the immediate support. Stock prices may see some relief in the coming week as new COVID cases continue its declining trend and if Alert level 1 will be declared in the coming days. Corporate earnings results have been encouraging. So far, 3 companies (BPI, JFC, GLO) have reported their FY21 results with 2 AHEAD (BPI, JFC) and 1 (GLO) in-line with in-house estimates. The local bourse may trade between 7000-7500 range in the short-term.

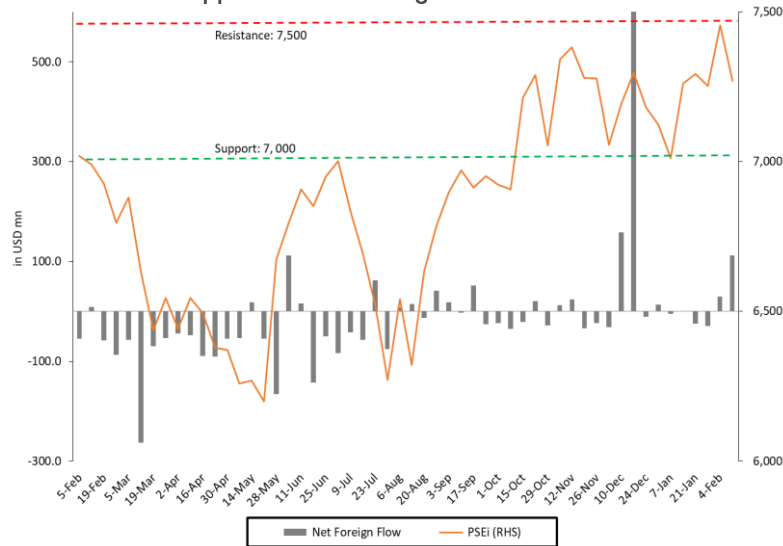
USD fixed income

- In the short-term, geopolitical concerns will likely cap upward move in yields. However, in terms of inflation and rate hike expectations, the outlook is still bearish for US Treasuries. We see 10Y range at 1.85%-2.05%.

PHP fixed income

- The result of tomorrow's RTB auction will heavily influence market sentiment for the week. Bond yields are currently trading at their YTD highs.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining and Oil (+3.78%), Property (+2.10%), Financials (-1.24%), Industrials (-2.22%), Services (-2.74%), Conglos (-5.41%)
Leaders: SMPH (+4.6%), CNVRG (+3.4%), ICT (+2.0%), JFC (+1.0%), MER (+0.6%)
Laggards: GLO (-15.4%), WILCON (-8.9%), ACEN (-8.6%), JGS (-7.5%), AEV (-7.3%)

Source: Bloomberg, The Philippine Stock Exchange