

Ukraine tensions and rate hikes move markets

21 February 2022

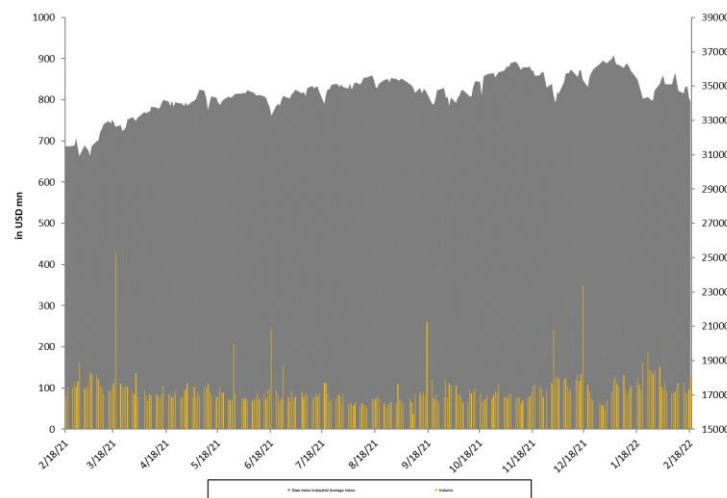
- Stock markets concerned over a potential European conflict and rising rate outlook, Philippines supported by an improving COVID-19 situation
- Geopolitical risks cap rise in fixed income yields, local players awaiting release of March auction schedule and RTB offering conclusion
- Russian invasion viewed to be imminent by the US, case for aggressive US rate hikes strengthen in order to curb inflation

Foreign equity markets down on Russia-Ukraine tensions. Rising rate environment outlook also pressuring valuations.

- The US stock market sell-down was broad based and marked the second consecutive losing week. Movements were supported by earnings releases and guidance in some cases, while tech names were quite active. Notable names were Palantir, Nvidia, Cisco, and DoorDash. The Dow Jones, S&P and Nasdaq were -1.90%, -1.58%, -1.76%, week-on-week, respectively, while volatility was +1.43% for the week.
- EU markets were likewise battered as traders remained on edge amid conflicting reports over the Ukraine standoff. Corporate earnings were likewise drivers of the market. Some notable sell-downs were Hermes and Allianz, while Orion (pharmaceuticals) gained after its partner announced positive clinical results. The FTSE, STOXX 600, CAC and DAX were -1.92%, -1.86%, -1.17%, -2.48% week-over-week last week, respectively.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Russia and Ukraine continue to dominate headlines. US Fed expectations continue to point to aggressive rate hikes.

- The US believes that a Russian invasion of Ukraine could potentially target multiple cities past Kyiv, with Vice President Harris convinced that this could occur within days. Russia has denied the allegations, though its military drills with Belarus has been extended past its initial February 20 end-date. Russian troops will remain in Belarus, which also shares a border with Ukraine, indefinitely.
- Economists have started to pencil-in more aggressive rate hikes from the US Fed in order to suppress high inflation, with some houses forecasting more than +200bps in less than a year. Fed officials concluded in their meeting in January that inflation is running too high as the economy is reaching full employment, also signaling that the raising of rates should be at a faster pace than in 2015. Members moved up their window of balance sheet tightening to the third quarter of this year, 18 months sooner than seen in December.

Source: JPM

Interest rates				
USD	18-Feb-22	11-Feb-22	31-Dec-21	+/-
UST 2Y	1.47	1.50	0.73	(0.03)
UST 5Y	1.82	1.85	1.26	(0.03)
UST 10Y	1.93	1.94	1.51	(0.01)
UST 20Y	2.30	2.30	1.93	(0.00)
UST 30Y	2.24	2.24	1.90	0.00
ROP 3Y	2.06	1.82	0.91	0.25
ROP 4Y	1.90	1.81	0.98	0.09
ROP 9Y	2.93	2.78	2.02	0.15
ROP 10Y	2.90	2.75	2.00	0.15
ROP 24Y	3.65	3.52	2.94	0.13
PHP	18-Feb-22	11-Feb-22	31-Dec-21	+/-
2Y	2.58	2.49	2.59	0.10
3Y	2.58	2.49	2.59	0.10
4Y	4.27	4.15	3.82	0.11
5Y	5.44	5.27	4.71	0.17
7Y	5.00	4.89	4.49	0.11
10Y	5.23	5.33	4.69	(0.10)
11Y	5.44	5.27	4.71	0.17
20Y	5.48	5.23	5.07	0.25
20Y*	5.48	5.23	5.07	0.25
USDPHP	51.350	51.340	52.580	0.01

Source: Bloomberg

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Philippine Equities

- The PSEi was up 2.04% week-over-week to 7,418.79 last week as sold-down names during the recent index rebalancing recovered. Resilient OFW remittance growth of 5.1% for last year to a new high of USD31.4bn also supported a positive sentiment. Gains however were tempered by weak global investor sentiment driven by increasing geopolitical risk relating to Russia and Ukraine. The IATF also announced that the COVID-19 Alert Level for Metro Manila (NCR) will stay at Level Two for the rest of February after the mayors in the region expressed their preference not to ease restrictions despite the decline in cases.
- The country reported 1,712 daily COVID-19 cases yesterday, much improved from the recent highs surpassing 30K and is the lowest daily tally since December 30. Positivity rate was also reportedly low at only 8.8% while an overwhelming majority (92.4%) of cases were mild and asymptomatic. Metro Manila in particular is reporting low fresh case counts below 500 a day.
- On the macro front, the BSP kept policy rates unchanged at 2%, as had been signaled by Governor Diokno and expected by markets. To mitigate rising inflation due to food and oil price hikes, the BSP argued for non-monetary measures to contain food prices and expressed confidence that inflation remained manageable.

USD fixed income

- The US Treasury yield curve bull steepened last week as safe haven demand on the back of geopolitical tensions capped a rise in yields. The 10Y yield ended the week at 1.929%, ~1bp lower w-w. ROPs dipped further and spreads are trading at the wides across the curve.

PHP fixed income

- The BTr set the coupon for the new 5Y RTB at 4.875%. Offer period ends on Feb. 28 and issue date will be on March 4. Market activity was light throughout the week with flows concentrated on the front-end as market players look to switch their holdings to the new RTB.

Outlook for the week

Stock market

- The steep decline two weeks ago caused by the PSEi rebalancing provided a good entry level for investors as most index names were sold down to fund the entry of MONDE and EMP, replacing RRHI and BLOOM. On a technical note, the local index managed to show a higher low structure, which could mean that an uptrend is forming. The index is currently nearing the major 7,500 resistance but has not reached overbought levels yet. Longer term, our bias is for the index to break out of the 7,500 resistance as the country recovers and as restrictions are eased. We may see the index consolidate next week around 7,200 to 7,500 as it gathers momentum to test and attempt to break its high at 7,500. Hopefully, the 50DMA can serve as a strong short term support to keep the rallying bias for the market.

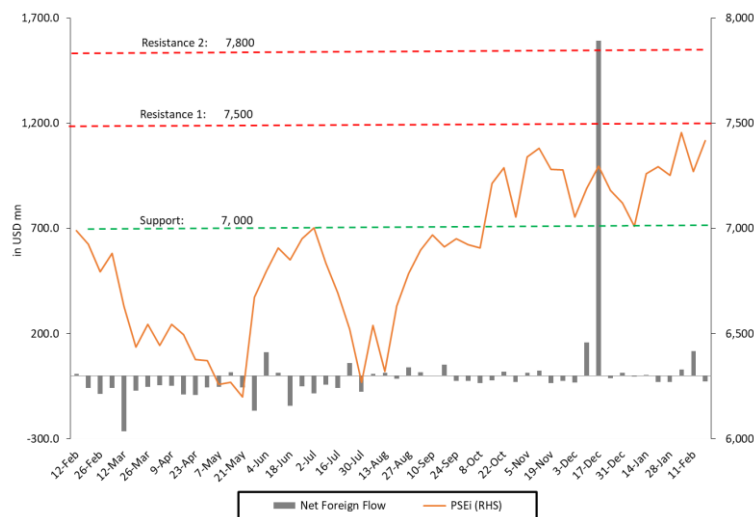
USD fixed income

- In the short-term, geopolitical concerns will continue to cap an 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

- Market activity may continue to stay subdued throughout the week as players await the release of the March auction schedule and conclusion of the RTB offer period.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining & Oil +5.13%, Property +3.13%, Holding Firms +3.01%, Services +2.01%, Financials +0.95%, Industrial -0.57%

Leaders: JGS +8.84%, RLC +8.33%, AP +7.20%, ALI +6.73%, AEV +6.43%

Laggards: MONDE -11.56%, EMP -10.22%, CNVRVG -3.97%, TEL -262%, LTG -0.63%

Source: Bloomberg, The Philippine Stock Exchange

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