

# Equities resilient to hawkish rhetoric, bond yields still rising

## 28 March 2022

- Local and US bourses climb higher, despite hawkish Fed and BSP outlook and high inflation. EU bourses flat on signs the crisis is starting to bite.
- US and local bond yields continue upward march as Fed guides more aggressive tightening and BSP upgrades 2022 inflation forecast.
- US macro headlines dominated by hawkish Fed commentary suggesting next few hikes may be in 50bps increments. Some see 3% by end 2022.

### US markets ignore Fed hawkishness, press on despite Ukraine war dragging on. EU stocks flat on signs crisis is affecting sales, output

- US equity bourses were up for the week, largely ignoring increasingly hawkish rhetoric from the Fed and their first hike in several years, as well as the twin risks of the Russia-Ukraine war and runaway inflation. Trading this week got off to a choppy start Monday with several indices hitting their lows upon hawkish commentary by the Fed's Powell. US bourses bounced back sharply the next day and marched upward to close the week in positive territory despite tighter monetary policy and no significant breakthrough for peace on the Russia-Ukraine war front. The Dow, S&P and Nasdaq were up 0.31%, 1.79% and 1.98%, respectively, while volatility (VIX) fell -12.82%.
- European bourses closed the week broadly flat to slightly lower as gains early last week in financial and energy/mining sectors were largely erased by worsening business sentiment and signs numerous crises have started to affect retail sales. EU banks and commodity-linked names initially benefited from Fed tightening and the relentless increase in commodity prices. However, numerous concerns, such as failure of Russia-Ukraine peace talks leading to WW3, Covid-19 Omicron sub-variant gaining steam in Europe, inflation starting to bit disposable income (UK retail sales down in Feb) and German business confidence hit a new pandemic era low given soaring energy prices, started to weigh on markets. The CAC, DAX, STOXX 600 were down 0.03%, 0.74% and 0.38%, respectively, while the FTSE bucked the trend, climbing 1.06% WoW.

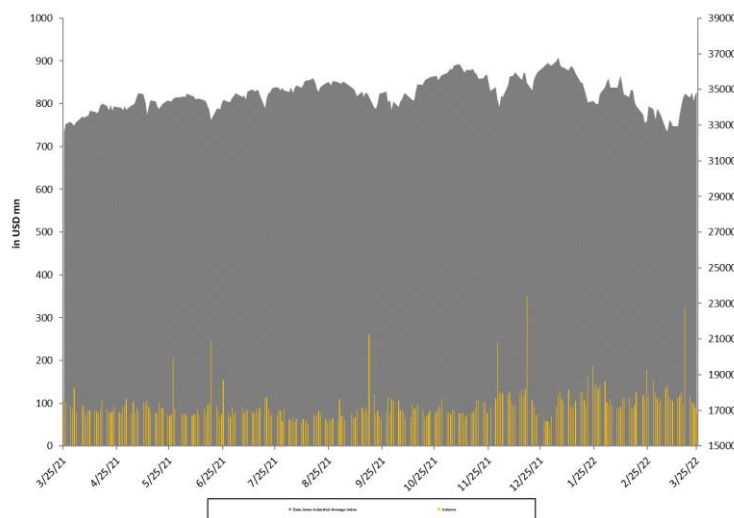
Source: JP Morgan

### Macro headlines dominated by hawkish Fed rhetoric, coloring Fed glide path to rate normalization.

- US macro news for last week was dominated by hawkish commentary from the Fed with Chair Powell indicating that hikes greater than 25bps at a time are on the table and odds are now tilted for the first half-point increase come May. Fed governor Bullard, for his part, opined that "faster is better" when it came to Fed tightening and wanted to see rates north of 3% by end-2022. Reputable economists like Paul Krugman believe the best-case scenario in 2022 is growth, albeit below trend and with higher unemployment in exchange for far less inflation.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	25-Mar-22	18-Mar-22	31-Dec-21	+/-
UST 2Y	2.27	1.94	0.73	0.33
UST 5Y	2.55	2.14	1.26	0.40
UST 10Y	2.47	2.15	1.51	0.32
UST 20Y	2.74	2.54	1.93	0.20
UST 30Y	2.58	2.42	1.90	0.16
ROP 3Y	2.70	2.57	0.91	0.13
ROP 4Y	2.78	2.44	0.98	0.34
ROP 9Y	3.43	3.09	2.02	0.34
ROP 10Y	3.32	3.03	2.00	0.29
ROP 24Y	4.08	3.77	2.94	0.31
PHP	25-Mar-22	18-Mar-22	31-Dec-21	+/-
2Y	3.17	3.08	2.59	0.09
3Y	3.17	3.08	2.59	0.09
4Y	4.70	4.60	3.82	0.09
5Y	5.62	5.41	4.71	0.21
7Y	5.45	5.32	4.49	0.13
10Y	5.60	5.39	4.69	0.20
11Y	5.62	5.41	4.71	0.21
20Y	5.53	5.53	5.07	(0.00)
20Y*	5.53	5.53	5.07	(0.00)
USDPHP	52.150	52.335	52.580	(0.19)

Source: Bloomberg

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## Philippine Equities

- The local equity bourse ended last week higher by 1.67% to close at 7,124.84 as the BSP refrained from raising interest rates as widely expected. With local Covid conditions continuing to improve and daily cases hitting new lows, the economy is as open as can be, prompting the market to ignore BSP warnings that inflation will print above its tolerance of 4% in 2022 (new forecast is 4.3% from 3.7%). In other news, SM was removed from the FTSE and CNVRG decided to buy the Alaska Aces PBA franchise for Php114Mn.
- For this week, investors will be checking to see if Feb bank lending can outdo January's robust 8.3% y/y growth. A few stragglers have yet to report 2021 earnings and developments in the Russia-Ukraine conflict, given its bearing on global crude oil prices, will inform market outlook and performance.

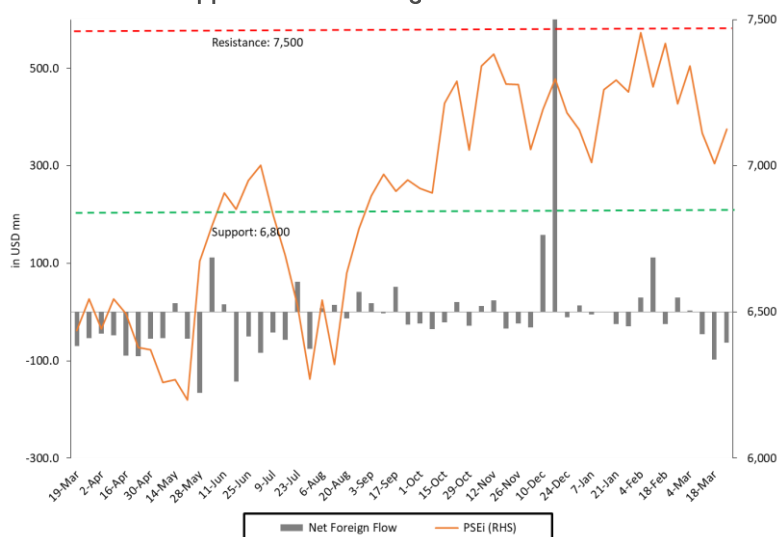
## USD fixed income

- USTs bear flattened further after Powell and several Fed officials gave more hawkish statements. They brought up the urgent need to act aggressively and opened the possibility of 50 bps hikes in future FOMC meetings to curb inflation. The 10Y yield rose 30 bps w/w to 2.47%.

## PHP fixed income

- Local GS yields rose 5-15 bps in the belly after the BTr partially awarded the 7-65 re-issue ~20 bps above secondary market. BSP kept its policy rate unchanged but adjusted inflation expectations to 4.3%.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Services (+4.49%), Financials (+2.45%), Mining (+2.25%), Industrials (+1.22%), Conglomerates (+1.06%), Property (-0.76%)  
**Leaders:** GLO (+17.04%), CNVRG (+13.10%), TEL (+9.73%), AGI (+5.74%), EMP (+5.17%)  
**Laggards:** SMPH (-2.46%), MEG (-3.17%), LTG (-4.30%), MONDE (-5.86%), BLOOM (-7.50%)

Source: Bloomberg, The Philippine Stock Exchange

## Outlook for the week

### Stock market

- For this week, we expect the market to rally after establishing a base around its 6,800 support. This will be led by SM, a stock that was heavily sold due to the recent FTSE rebalancing (as high as Php11 bn traded in one day).

### USD fixed income

- With Fed's more hawkish outlook, we can expect Treasury yields to continue its upward trajectory as market participants also adjust their expectations. Key data for the week are the Core PCE and jobs print.

### PHP fixed income

- GS yields seem supported with healthy demand observed at these levels. Furthermore, the USD 2.2 billion ROP issuance last week can help ease supply pressures.