

# US Fed and conflict in Europe driving markets

## 4 April 2022

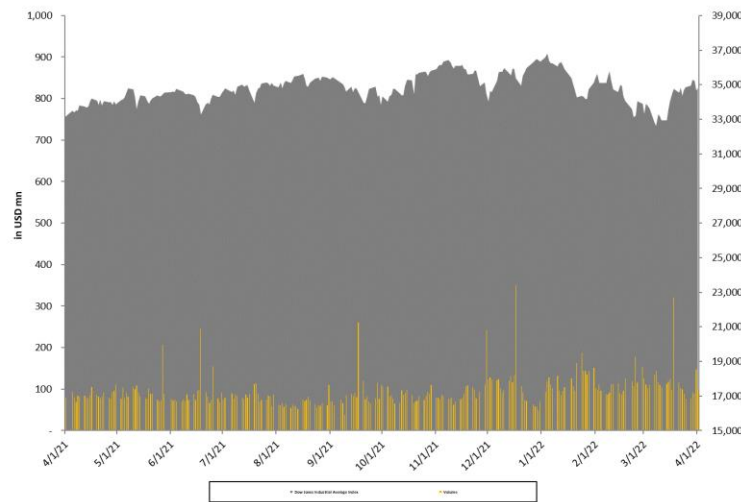
- Some markets expressing optimism on ongoing peace talks, underlying macro & COVID-19 situation continues to improve in the Philippines
- Labor and inflation influences global fixed income markets, local space looking towards CPI disclosure this week
- Oil prices down for the week as US crude reserves are released, images of conflict released over weekend spur tensions

### US trades sideways while EU recovers. Progress over Ukraine-Russia talks being eyed.

- The US stock market was listless last week, as Wall Street registered its first negative quarter in two years. Semiconductor and tech names were pressured last week as concerns emerged over slowing personal computer demand. The Dow Jones, S&P and Nasdaq were -0.12%, +0.06%, +0.65% week-on-week, respectively, while volatility was -5.67% for the week.
- The EU indexes posted gains last week as the region focused on the peace talks. The STOXX 600 index closed last quarter down 6.6% however, with recovery only occurring over recent weeks. Inflation and supply chain disruptions continue to be in focus for the region amidst the conflict. The FTSE, STOXX 600, CAC and DAX were +0.73%, +1.06%, +1.99%, +0.98% week-over-week last week, respectively.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

### Inflation continues to be elevated, rate hikes signaled. Developments over the weekend dampen peace talk prospects.

- Core PCE prices in the US, an inflation measure, reported growth of 5.4% for February while Euro-zone inflation was seen at 7.5% for March. US FOMC officials continue to point towards raising rates due to the inflation outlook, though to do so in steps given ongoing uncertainties. Crude oil prices registered its biggest weekly loss last week in 10 years as the US announced it would be releasing supply from its reserves, while traders are waiting to see if other nations will do the same.
- Photos were released over the weekend that showed civilian deaths in Ukraine, with the US, Germany, France, and Italy condemning the actions of the Russian military. The Kremlin claims that the images were faked. Ukraine and Russian representatives are currently in Turkey discussing a de-escalation of the conflict, but the two have been recently releasing discouraging statements. Ukraine has asked the International Criminal Court to gather evidence of Russian war crimes, while Russia has accused Ukraine of attacking its oil refineries and fuel depots.

Source: JPM

| Interest rates |           |           |           |        |
|----------------|-----------|-----------|-----------|--------|
| USD            | 01-Apr-22 | 25-Mar-22 | 31-Dec-21 | +/-    |
| UST 2Y         | 2.46      | 2.27      | 0.73      | 0.19   |
| UST 5Y         | 2.56      | 2.55      | 1.26      | 0.01   |
| UST 10Y        | 2.38      | 2.47      | 1.51      | (0.09) |
| UST 20Y        | 2.59      | 2.74      | 1.93      | (0.15) |
| UST 30Y        | 2.43      | 2.58      | 1.90      | (0.15) |
| ROP 3Y         | 2.62      | 2.70      | 0.91      | (0.08) |
| ROP 4Y         | 2.79      | 2.78      | 0.98      | 0.00   |
| ROP 9Y         | 3.18      | 3.43      | 2.02      | (0.25) |
| ROP 10Y        | 3.06      | 3.32      | 2.00      | (0.26) |
| ROP 24Y        | 3.76      | 4.08      | 2.94      | (0.31) |
| PHP            | 01-Apr-22 | 25-Mar-22 | 31-Dec-21 | +/-    |
| 2Y             | 3.13      | 3.17      | 2.59      | (0.04) |
| 3Y             | 3.13      | 3.17      | 2.59      | (0.04) |
| 4Y             | 4.81      | 4.70      | 3.82      | 0.11   |
| 5Y             | 5.71      | 5.62      | 4.71      | 0.09   |
| 7Y             | 5.73      | 5.45      | 4.49      | 0.28   |
| 10Y            | 6.05      | 5.60      | 4.69      | 0.45   |
| 11Y            | 5.71      | 5.62      | 4.71      | 0.09   |
| 20Y            | 5.55      | 5.53      | 5.07      | 0.01   |
| 20Y*           | 5.55      | 5.53      | 5.07      | 0.01   |
| USDPHP         | 51.670    | 52.150    | 52.580    | (0.48) |

Source: Bloomberg

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## Philippine Equities

- The PSEi was up slightly 0.39% week-over-week to 7,152.88 last week as strength earlier in the period was pared by profit taking. The Ukraine-Russia conflict and inflationary pressures remain in the spotlight though some relative positivity has come from the ongoing peace talks between the two nations.
- Peace talks between Ukraine and Russia resumed last Friday in Turkey as heavy fighting continued in Mariupol in the south of Ukraine. Reports have suggested that the Russian military has started to pull out of the regions around Kyiv and are concentrating on the East and South of Ukraine. Graphic images of civilian deaths were released over the weekend however that may put a pall over the ongoing talks.
- In local news, the IATF approved the extension of Alert Level 1 in Metro Manila until April 15. Nearly 200 other areas in the Philippines are under the same classification while rest of the nation is under Alert Level 2. Fresh daily COVID-19 cases for the country continue to be lower than 1K, while active cases are on a downtrend.
- On the macro front, the BSP reported that bank loans continued to grow last February at 8.8%. This marked the 7<sup>th</sup> straight month of growth and is the quickest pace since June 2020. Inflation for March is also expected to be reported this week, with median estimate at 3.6%.

## USD fixed income

- The US Treasury yield curve bear flattened and several parts of the curve ended the week inverted after the latest jobs report continued to paint a picture of a strong labor market with falling unemployment and rising wages. In the ROP space, recovery in risk sentiment pushed spreads back to the mean.

## PHP fixed income

- Local GS yield curve bear steepened with underperformance led by the long-end after the results of the 10Y auction. Meanwhile, USDPHP fell below the 52 level and closed the week at 51.67 (-48 centavos w-w) on weak corporate demand and improving risk sentiment.

## Outlook for the week

### Stock market

- We expect the PSEi to continue to trade sideways between 7,000 and 7,250 as geopolitical risks remain elevated amid the Ukraine-Russia war. We believe the local market will continue to be supported as fundamentals remain attractive amid the swing into full recovery.

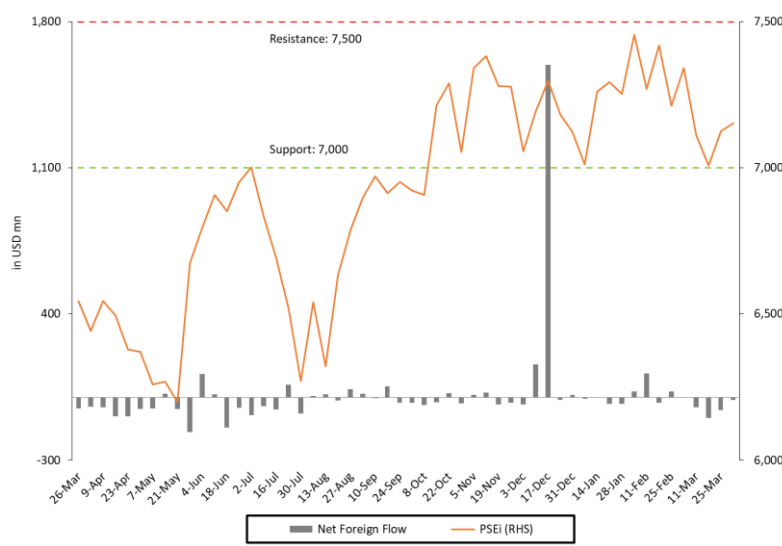
### USD fixed income

- US Treasuries could maintain range-bound action as market has already priced in an aggressive Fed rate hike scenario. Range for the 10Y yield is 2.30%-2.50%.

### PHP fixed income

- GS yields seem supported with healthy demand observed at these levels. Market direction for the week could largely be influenced by tomorrow's CPI print with consensus estimate at 3.7%.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Industrial +1.84%, Holding Firms +0.66%, Financials +0.51%, Services +0.38%, Property -0.82%, Mining & Oil -3.89%

**Leaders:** PGOLD +8.35%, GTCAP +6.02%, CNVRG +5.26%, ACEN +4.82%, JFC +3.74%

**Laggards:** GLO -4.47%, EMP -4.10%, AGI -3.88%, TEL -2.97%, ALI -2.92%

Source: Bloomberg, The Philippine Stock Exchange