

All asset classes challenged as US inflation as high as feared

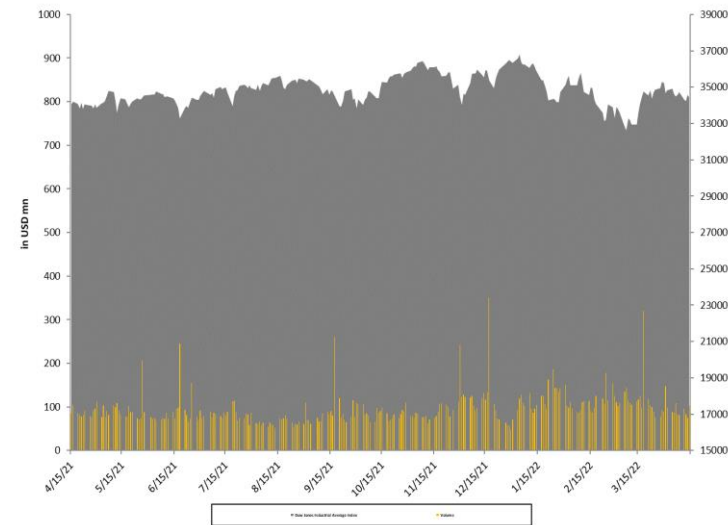
18 April 2022

- Equities as a whole challenged last week with PSEi and US bourses down markedly on inflation and hawkish Fed rhetoric while EU just sideways.
- UST curve continues to steepen with 10-Yr hitting 2.79% last week on imminent Fed hikes. Local bond curve bear steepened last week as a result
- US inflation dominates headlines last week as March's 8.5% inflation highest since 1981, seeping into producer prices and fueling growth fears.

US Markets end challenging week as March inflation justifies very hawkish Fed rate glide path. Contagion apparent in EU markets.

- US markets succumbed to profit-taking last week as investors used a promising start to 1Q earnings results season to lock in gains after the latest inflation data strongly supported the already very hawkish rhetoric of the Fed that all but guarantees further tightening in the near future. US bourses started last week on a soft note anyway, with Tech sector particularly dismal as Fed tightening was seen curbing growth. The 10-Yr UST closed above 2.79% last Monday. March US inflation printed at 8.5%, the highest since 1981, causing a prompt sell-off after an otherwise strong start to Tuesday's session. US bourses closed the week markedly lower after a mid-week bounce with the Dow Jones, S&P 500 and Nasdaq falling -0.38%, -2.39% and -3.93% WoW, respectively. Volatility (VIX) was 5.34% higher on the week.
- European bourses closed last week with mixed results, but largely trading sideways week-on-week, as they tracked downward movement in US Tech names but financials saw an uplift early last week. Contagion was apparent in EU as the record-high March US inflation print of 8.5% shifted market focus to the ECB's upcoming meetings and rising alarm over stagflation became apparent with most sectors trading in the red, save for mining/energy which benefited from China's partial lifting of Covid restrictions. Markets traded sideways for the rest of the week as investors weighed the promise of good 1Q earnings results against higher inflation but lower growth and ongoing concern over Ukraine. The FTSE, DAX and STOXX were hardly changed last week, slightly higher by +0.85%, +0.61% and +0.24%, respectively, while the CAC was down -0.46% on uncertainty over France's next President.

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	15-Apr-22	08-Apr-22	31-Dec-21	+/-
UST 2Y	2.45	2.51	0.73	(0.06)
UST 5Y	2.79	2.75	1.26	0.03
UST 10Y	2.83	2.70	1.51	0.13
UST 20Y	3.09	2.91	1.93	0.18
UST 30Y	2.91	2.72	1.90	0.20
ROP 3Y	2.96	2.68	0.91	0.28
ROP 4Y	3.24	2.91	0.98	0.33
ROP 9Y	3.79	3.43	2.02	0.36
ROP 10Y	3.66	3.29	2.00	0.36
ROP 24Y	4.33	4.05	2.94	0.29
PHP	15-Apr-22	08-Apr-22	31-Dec-21	+/-
2Y	3.02	2.87	2.59	0.15
3Y	3.02	2.87	2.59	0.15
4Y	4.94	4.77	3.82	0.17
5Y	5.99	5.92	4.71	0.07
7Y	5.67	5.69	4.49	(0.03)
10Y	5.93	5.93	4.69	0.00
11Y	5.99	5.92	4.71	0.07
20Y	5.72	5.73	5.07	(0.00)
20Y*	5.72	5.73	5.07	(0.00)
USDPHP	52.030	51.590	52.580	0.44

Source: Bloomberg

Source: JP Morgan

Inflation concerns at the fore all week as US March CPI prints at highest since 1981. Fears of stagflation starting to be reflected.

- Inflation was the hot topic all week long as predictions of high food inflation early last week were confirmed Tuesday with March inflation at 8.5% y/y, the highest since 1981, although core inflation was better than expected, at +6.5% y/y and +0.3% m/m. Headline inflation was higher by 1.2% in March over Feb and half the reason was gas prices. There were also signs goods prices were tempering but services were increasing. This was also reflected in producer prices, which were up 11.2% y/y and 1.4% m/m in March likely hinting at margin pressure as inflation faced by manufacturers is faster than that of consumers. On the bright side, labor expectations are good with unemployment steady and jobless claims trending slightly lower. Retail sales is also seen doubling in growth rate to 0.6% in March from 0.3% previously.

Source: JP Morgan

Philippine Equities

- The local equity bourse shed 33.12 points (-0.47% WoW) to close at 6,984.9, a third consecutive weekly decline, during the shortened trading week Fed tightening and out-of-hand inflation continued to weigh on investor sentiment amid light volumes, given the seasonal lull during Holy Week. Macro-economic news was mixed with poor January FDI falling -16% y/y to \$819Mn, the first annual decline in 8 months attributed to the Omicron surge, offset by higher GIR of \$108.54Bn in March vs. Feb's \$107.98Bn. In Corp news, TEL's Voyager Innovations raised \$210Mn in new capital, led by SIG Venture Capital, to fund Maya Bank. The post-money valuation, at \$1.4Bn (Unicom status), is almost twice the last round in 2021.
- For this week, we expect trading volumes to rebound post the Easter holiday with March OFW remittances the first bit of high frequency data due on Monday (+3.6% y/y consensus estimate). Investors will be watching to see if the 6,800 support level is respected amid the return of volumes, which may become self-reinforcing.

USD fixed income

- US Treasury curve steepened further as market pulled back recession bets and priced in upcoming Fed hikes. For the week, 10Y yield rose 12 bps to 2.82%, while 30Y yield rose 20 bps to 2.91%.

PHP fixed income

- Local bond yields bear flattened on low volume trading activity. Front-end rose 5-15 bps after the partially awarded 5-77 auction, while yields in the long-end were relatively unchanged.

Outlook for the week

Stock market

- For this week, we expect the local bourse to bounce from the 6,800 support after consolidating close to this level last week. Trading volume is expected to improve as fund managers return from the holiday, however, trading may still remain tepid over the weeks prior to the May 9 presidential elections. Geopolitical tension in Russia-Ukraine, hawkish US Fed, and elevated commodity prices may also continue to weigh on market sentiment.

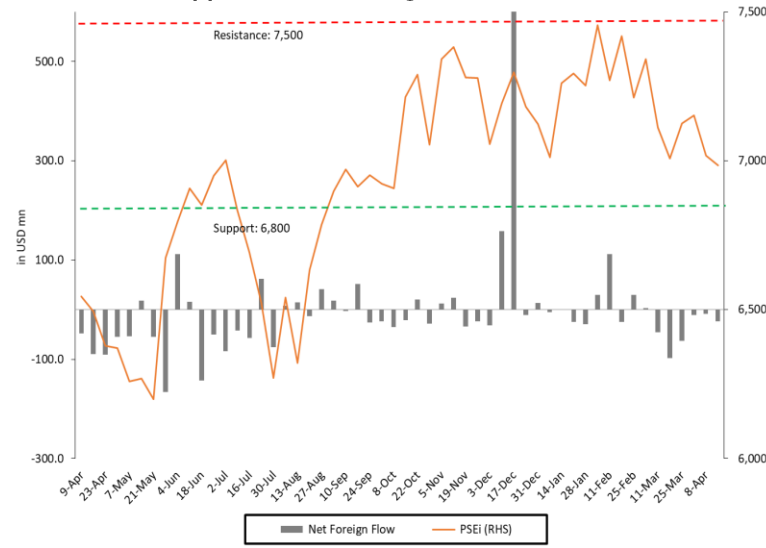
USD fixed income

- Upward trend will likely remain intact for US Treasury yields ahead of the May FOMC meeting.

PHP fixed income

- Rally in bond yields stalled last week. Market will likely stay defensive and await fresh signals from the upcoming 7Y and 10Y auctions.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Conglomerates (+0.03%), Services (-0.27%), Industrials (-0.34%), Financials (-0.97%), Property (-1.43%), Mining (-1.71%)
Leaders: EMP (+21.28%), WLCON (+5.37%), CNVRG (+4.54%), AGI (+2.31%), AEV (+2.04%)

Laggards: ALI (-2.72%), URC (-2.81%), BDO (-3.02%), MER (-3.16%), DMC (-4.28%)

Source: Bloomberg, The Philippine Stock Exchange