

US Fed statements roil global markets

25 April 2022

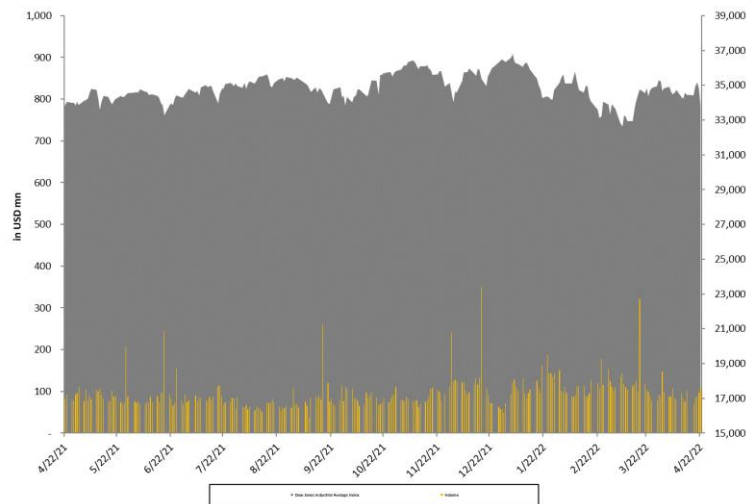
- Equity markets rocked by US Fed Chair Powell statements on rate hikes, Philippines joined in sell-off in latter half of week
- Yields steepened across US and local fixed income markets due to the Fed's hawkishness, local auction schedule for May released soon
- 50bps US policy rate a possibility to curb inflation, Ukraine-Russia conflict remains in the spotlight

Foreign equity markets sold-down due to focus on rising rates. Earnings results also driving share price movements.

- US stocks started materially correcting last Thursday as a jump in treasury yields stalled optimism driven by corporate releases. Tesla and United Airlines were notably better than market due to a respective beat on earnings results and profitability forecast. The Dow Jones, S&P and Nasdaq were -1.86%, -2.75%, -3.83%, week-on-week, respectively, while volatility was +24.27% for the week.
- EU indices joined their US counterparts last Friday due to the same concerns on benchmark rates. Prior to that Nestle and Swiss conglomerate ABB reported better than expected earnings results, lending some resiliency for the two. The FTSE, STOXX 600, CAC and DAX were -1.24%, -1.42%, -0.12%, -0.15% week-over-week last week, respectively.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

US Fed possibly raising rates faster, earlier rather than later. Ukraine-Russia conflict moves into third month.

- US Fed Chair Jerome Powell said that a half-point rate increase is possible for next month's FOMC meeting and noted that he saw merit in "front-end loading" moves. Mary Daly noted that half-point rate hikes are warranted in order to control inflation, while James Bullard flagged the potential for a 75bps rate increase. The statements last week spurred a rise US treasury yields and inverse effect on equity markets globally.
- The Ukraine-Russia has continued into its third month and has refocused away from Kyiv and onto Ukraine's eastern regions. Ukraine has disputed Russian claims that they have captured Mariupol, a key Ukrainian city. President Zelensky has also stated that Ukraine will pull-out of peace talks if Mariupol soldiers are killed and warned against holding "pseudo-referendums" in Kherson. Meanwhile western nations continue to support Ukraine with arms and funds.

Source: JPM

Interest rates				
USD	22-Apr-22	15-Apr-22	31-Dec-21	+/-
UST 2Y	2.67	2.45	0.73	0.21
UST 5Y	2.93	2.79	1.26	0.14
UST 10Y	2.90	2.83	1.51	0.07
UST 20Y	3.14	3.09	1.93	0.05
UST 30Y	2.94	2.91	1.90	0.03
ROP 3Y	3.04	2.96	0.91	0.08
ROP 4Y	3.21	3.24	0.98	(0.03)
ROP 9Y	3.88	3.79	2.02	0.09
ROP 10Y	3.76	3.66	2.00	0.10
ROP 24Y	4.40	4.33	2.94	0.07
PHP	22-Apr-22	15-Apr-22	31-Dec-21	+/-
2Y	2.94	3.02	2.59	(0.08)
3Y	2.94	3.02	2.59	(0.08)
4Y	5.09	4.94	3.82	0.15
5Y	6.16	5.99	4.71	0.17
7Y	5.88	5.67	4.49	0.21
10Y	5.97	5.93	4.69	0.03
11Y	6.16	5.99	4.71	0.17
20Y	5.78	5.72	5.07	0.06
20Y*	5.78	5.72	5.07	0.06
USDPHP	52.315	52.030	52.580	0.28

Source: Bloomberg

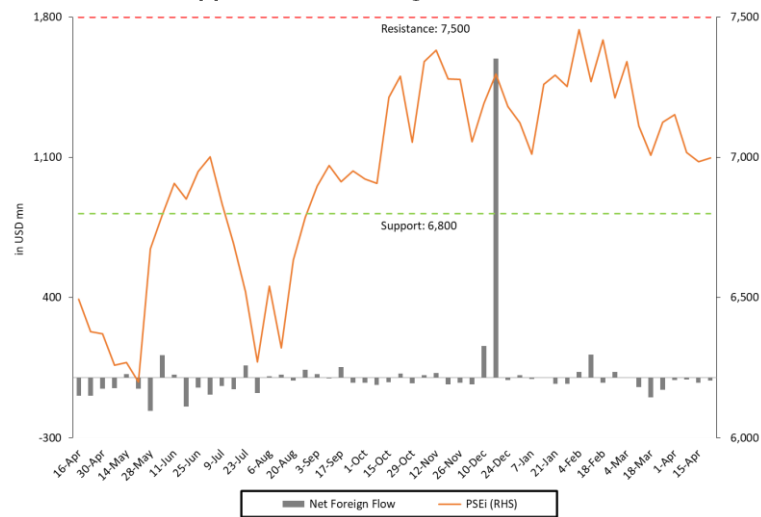
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Philippine Equities

- The PSEi was up slightly 0.20% week-over-week to 6,998.59 last week as recovery earlier in the week was pared by profit taking. The weekly performance snapped two-straight weeks of declines but was dampened by US Fed statements towards combating inflation as Friday neared. Two index banks kicked-off 1Q22 earnings season last week, with the two managing share price gains for the week.
- The COVID-19 situation continued to improve last week, with active cases approaching 15K vs the prior week's 25K+. The government has also announced a second round of boosters for the immunocompromised starting today. Adults fitting into this category can avail of their second booster as early as 3 months after their first, with house-to-house inoculation possible with LGU coordination.
- On the macro front, OFW remittance growth for February was at 1.3% taking 2M22 growth to 1.9%. The growth trend is currently behind the BSP's 4% growth projection for the year though. March's bank lending stats are expected to come this week, with bank lending growing for the last 7 months in a row with most expecting the trend to continue.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining & Oil +3.62%, Financials +1.93%, Services +1.56%, Holding Firms -0.19%, Property -0.26%, Industrial -2.17%

Leaders: EMP +7.25%, WLCON +6.79%, BDO +5.06%, TEL +3.71%, JGS +2.70%

Laggards: MER -6.13%, URC -5.19%, AP -4.23%, ACEN -3.53%, PGOLD -2.17%

Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- US Treasuries bear steepened last week after Fed officials came out with hawkish statements confirming that a 50 bp rate hike will likely come in May. The hawkish tone also worsened sentiment in risk assets including ROPs where prices hit fresh lows.

PHP fixed income

- The local bond curve bear steepened as market players turned defensive after BTr cut-off bids for the 7-65 auction at 5.93%. Spot traded in the 52.25-52.50 range last week amid broad USD strength.

Outlook for the week

Stock market

- We expect a volatile week this week as more news about a hawkish Fed may dampen sentiment but hopefully to be countered by any surprises in 1Q22 earnings releases. The May 9 presidential elections will continue to be monitored by both local and foreign investors. The recovery story remains a bigger catalyst for this year amidst the spike in inflation and higher interest rates. Our PSEi target for year-end 2022 is 8,296, 18.5% upside from last close.

USD fixed income

- A brief rally in US Treasuries after the steepening move last week pushing yields into resistance areas is likely. In addition, Fed's hawkish outlook is yet to be priced in across risk assets. Range for 10Y yield is 2.75%-2.95%.

PHP fixed income

- Local bond yields are likely to move higher given supply risk and emerging inflation risks. The BTr will reissue 10-67 tomorrow, and bids are expected to be defensive. The May auction schedule will be released within the week.