

Inflation, growth, and geopolitical tensions still top of mind

16 May 2022

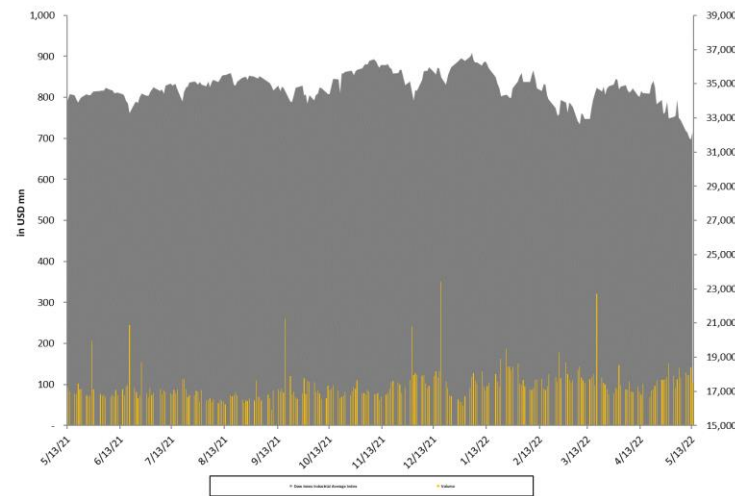
- Equity markets awaiting central bank moves given inflation and growth outlook, Philippines also awaiting new cabinet announcements
- Demand appearing on the long-end due to growth concerns, local fixed income players positioning for possible rate hike
- US inflation continues to be elevated, Russian aggression prompts more countries to join NATO

Foreign equity markets posted a relief rally late last week, but still trending lower as monetary policies eyed.

- US stocks continued on a downtrend last week, with some bargain hunting activity seen Thursday onwards. Some sold-down tech stocks posted recovery late in the week, the likes of Meta, Alphabet, Nvidia, and AMD. The Dow Jones, S&P and Nasdaq were -2.14%, -2.41%, -2.80%, week-on-week, respectively, while volatility was -4.37% for the week.
- EU equity markets' optical recovery was largely due to base effects as it continues to underperform the US market since the Ukraine-Russia conflict began. Siemens and other corporates exposed to Russia have continued to release discouraging earnings results due to operational/impairment impacts. The FTSE, STOXX 600, CAC and DAX were +0.41%, +0.83%, +1.67%, +2.59% week-over-week last week, respectively.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

US Fed pressured by elevated price movements. Sweden and Finland intend to join NATO.

- US producer prices rose 11% y-y in April and 0.5% from the month prior driven by escalating input costs. The metric alludes to persisting inflation, applying pressure to continue Fed tightening. Several Fed members have communicated their opinions that 50bp rate increases should be the norm for at least the next two meetings.
- Sweden and Finland have flagged their intention to join NATO given Russia's aggression towards Ukraine. The two countries have historically avoided pursuing membership in order to avoid antagonizing their neighbor. In retaliation, Russia has cut supplying electricity to Finland though Finland has stated that its supply should be unaffected as the country can source from other places. NATO member countries have pledged security guarantees to Sweden and Finland while their membership await ratification by the organization.

Source: JPM

Interest rates				
USD	13-May-22	06-May-22	31-Dec-21	+/-
UST 2Y	2.58	2.73	0.73	(0.15)
UST 5Y	2.87	3.08	1.26	(0.21)
UST 10Y	2.92	3.13	1.51	(0.21)
UST 20Y	3.31	3.44	1.93	(0.13)
UST 30Y	3.08	3.23	1.90	(0.15)
ROP 3Y	3.60	3.42	0.91	0.18
ROP 4Y	3.64	3.53	0.98	0.11
ROP 9Y	4.23	4.26	2.02	(0.03)
ROP 10Y	4.13	4.07	2.00	0.06
ROP 24Y	4.70	4.77	2.94	(0.07)
PHP	13-May-22	06-May-22	31-Dec-21	+/-
2Y	3.29	3.10	2.59	0.19
3Y	3.29	3.10	2.59	0.19
4Y	5.28	5.07	3.82	0.21
5Y	6.19	6.10	4.71	0.09
7Y	5.96	5.92	4.49	0.04
10Y	6.34	5.98	4.69	0.36
11Y	6.19	6.10	4.71	0.09
20Y	6.36	6.27	5.07	0.09
20Y*	6.36	6.27	5.07	0.09
USDPHP	52.450	52.500	52.580	(0.05)

Source: Bloomberg

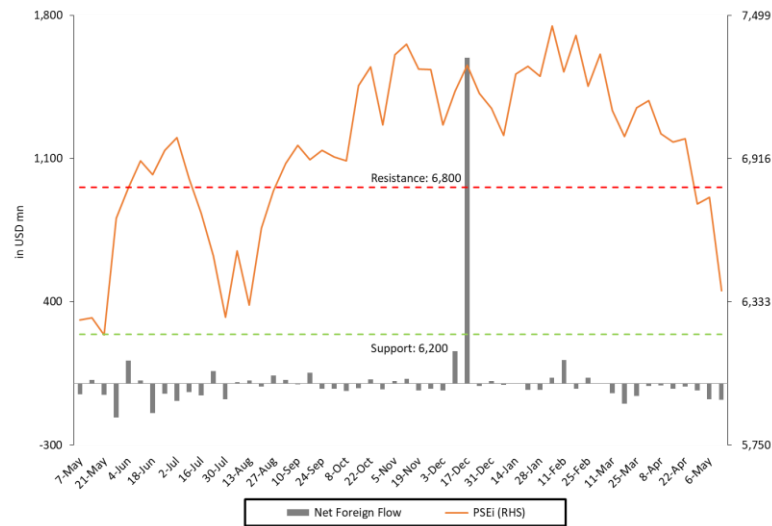
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Philippine Equities

- The PSEi was down 5.63% week-over-week to 6,379.17 last week as voting in national elections concluded and the bourse joined a global sell-off. Unofficial results peg “Bong Bong” Marcos as the new president with 31.1mn votes and Sara Duterte as the new vice-president with 31.6mn votes. Inauguration for the new leaders are expected to occur on June 30. The Philippines was on a holiday on Monday to support voting, but joined a global equities sell-off thereafter.
- The COVID-19 situation remained good last week, with active cases only at 3K cases nationwide. Positivity rate also remained low at 1.2%. Viral metrics are being closely watched as some expect a spike in cases tied with election activity. A lack of a spike over two weeks could signal sufficient herd immunity, possible given more than 147mn vaccine doses already administered and 3.7mn past infections.
- On the macro front, 1Q22 Philippine GDP came in at +8.3% y-y, materially beating consensus expectations of +6.8%. The numbers showed private consumption continuing to rise while investments picked-up the pace. Private consumption has regained the pre-pandemic level while investments remained 17% below.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Services -4.18%, Industrial -4.32%, Financials -4.66%, Property -6.08%, Holding Firms -6.63%, Mining & Oil -7.39%

Leaders: MONDE +7.32%, AGI +4.91%, TEL +2.12%

Laggards: ACEN -18.03%, ALI -15.38%, SECB -13.17%, AP -12.31%, AC -10.82%

Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- US Treasuries curve bear flattened last week as higher than expected April CPI print pushed yields higher in the front-end, while global growth concerns increased demand in the long-end. ROPs hit fresh YTD lows as risk sentiment turned sour.

PHP fixed income

- Local bond yields rose 30-40bps across the curve as market players reduced holdings ahead of a possible BSP rate hike, following a strong Q1 GDP print.

Outlook for the week

Stock market

- We expect PSEi to relatively weak as investors due to MSCI overhang and continued uncertainty over who will be chosen to be part of BBM's cabinet. Market should find support at the 6,300 level which was the low last August 2021.

USD fixed income

- A buy-on-dips strategy could work for US Treasuries in the near-term as global growth concerns grow and sentiment towards risk assets remains unfavorable due to Fed tightening. Range for 10Y yield is 2.80% to 3%.

PHP fixed income

- Local bond yields may continue to test fresh highs due to high likelihood of earlier than expected rate hike from BSP, inflation risks, and willingness of BTr to award bids significantly above street levels while market appetite is weak.