

Global equities recover after mid-week dip. UST yields fall.

30 May 2022

- Global equities bounce from mid-week dips on recessionary fear in US and EU, while clarity on BBM economic managers inspire local relief rally.
- UST curve bull flattened last week after key new US home sales and business activity disappointed, and on dovish Fed rhetoric by some officials.
- Global political, economic and business leaders meet in Davos for first WEF since pandemic with Ukraine, inflation and recession on their minds.

US and EU markets rebound strongly on sign pent-up consumption growth is strong enough to weather high Ukraine-driven inflation

- US markets recovered nicely by last week's end coming from a soft performance the week prior as rising US recession fears caused profit-taking of as much as 20% off January's all-time high for S&P. The bearish performance spilled over into last week on poor Tech sector performance and profit warnings. US bourses remained subdued as of muddled last week given US 1Q GDP contraction (-1.5% y/y vs. Estimate -1.4%) driven by higher trade deficit, lower public spending and domestic investment. However, this was offset by better-than-expected consumption and labor data. By Thursday, a robust rebound was underway with major US retailers Macys, Dollar Tree and Dollar General upgrading their 2022 earnings guidance, bucking the pessimistic trend set by Target and Walmart profit warnings, and easing demand-driven recessionary fears. The Dow Jones, S&P 500 and Nasdaq were up 6.24%, 6.58% and 6.84%, respectively, while volatility (VIX) retreated 12.61%.
- European bourses closed last week higher, notwithstanding a mid-week dip likewise on recession fears, as financials, energy and mining sector outperformance buoyed the whole market. Apart from concerns of a growth downturn, ECB rhetoric by Lagarde pointing to a July rate hike compounded inflationary fears prompting heavy profit-taking on the travel-related names. Later on, EU markets recovered on news US was reconsidering trade tariffs imposed on China by Trump and on evidence EU consumer demand is outpacing the adverse impact of the Russia-Ukraine war on sentiment and prices. The FTSE, DAX, CAC and STOXX were likewise up for the week, rising 2.65%, 3.44%, 2.60% and 3.09%, respectively.

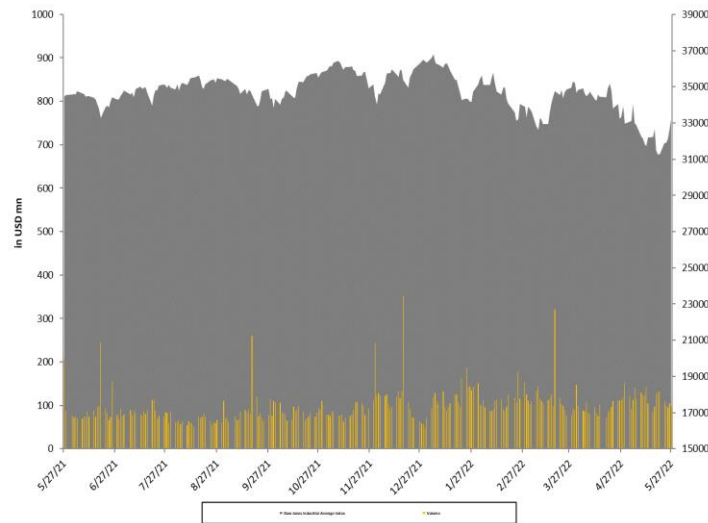
Source: JP Morgan

First face-to-face WEF since pandemic held in Davos amid Russia-Ukraine war. Inflation, recessionary risk at the forefront of agenda

- Politicians, business leaders and senior government officials to meet in Davos for the first in-person WEF since the pandemic hit. Expectations are subdued, however, due to the ongoing Russia-Ukraine war with Ukrainian representatives due to speak at the conference. ECB President Christine Lagarde has signaled monetary tightening, but not large or fast enough, apparently, with ECB colleagues disappointing at only -50 bps worth of cuts, over two meetings, being enough to exit negative territory by 3Q22. Latest US housing sales and business activity is reportedly softening. April new home sales fell 17% to 591,000 (annualized), owing to higher input/construction costs translating to higher sticker prices. It doesn't help that US mortgage rates had also increased significantly. May composite PMI and Richmond Fed's factory survey disappointed expectations with the former sliding 2.2 points to 53.8 and the latter falling to -9 (from 14).

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	27-May-22	20-May-22	31-Dec-21	+/-
UST 2Y	2.48	2.58	0.73	(0.10)
UST 5Y	2.72	2.80	1.26	(0.08)
UST 10Y	2.74	2.78	1.51	(0.04)
UST 20Y	3.15	3.17	1.93	(0.01)
UST 30Y	2.96	2.99	1.90	(0.02)
ROP 3Y	3.18	3.59	0.91	(0.41)
ROP 4Y	3.46	3.61	0.98	(0.15)
ROP 9Y	3.93	4.16	2.02	(0.23)
ROP 10Y	3.83	4.02	2.00	(0.19)
ROP 24Y	4.29	4.54	2.94	(0.24)
PHP	27-May-22	20-May-22	31-Dec-21	+/-
2Y	3.64	3.44	2.59	0.20
3Y	3.64	3.44	2.59	0.20
4Y	5.47	5.42	3.82	0.04
5Y	6.54	6.47	4.71	0.08
7Y	6.43	6.29	4.49	0.14
10Y	6.65	6.39	4.69	0.26
11Y	6.54	6.47	4.71	0.08
20Y	6.59	6.51	5.07	0.08
20Y*	6.59	6.51	5.07	0.08
USDPHP	52.320	52.230	52.580	0.09

Source: Bloomberg

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Philippine Equities

- The local equity bourse traded sideways last week with a slight downward bias as the PCOMP index recovered convincingly from a mid-week slump following more clarity and broad approval of incoming President Marcos Jr's cabinet picks. Among these were current BSP Gov. Ben Diokno continuing on as DoF Chief after being relieved by Felipe Medalla for the remainder of the former's term, seasoned officials like Alfredo Pascual, Manuel Bonoan and Arsenio Balisacan being appointed to the DTI, DPWH and NEDA, respectively, where some of them had already served in the past. The incoming Marcos Jr administration had also been more vocal, since proclamation, about maintaining policy consistency with the outgoing Duterte administration and prioritizing a financially sustainable economic rebound, post Covid, and addressing sustainability, infrastructure and corruption this early in its planning process. The PSEi lost 20.19 points week-on-week to close 0.3% lower at 6,726.14 as of end-Friday.
- For this week, we expect further clarity on economic strategies, policies and priorities following the appointment of key officials by the President-elect. Banking sector lending for April is also due out (March was 8.7% y/y) and the market is expecting significant flows related to MSCI rebalancing affecting CNVRG, MONDE, SMPH and AEV.

USD fixed income

- US Treasuries bull flattened last week as market players repriced rate hike expectations following dovish Fed speak from Raphael Bostic, and a series of disappointing data releases on new home sales and business activity. For the week, 10Y yield closed 11 bps lower at 2.74%.

PHP fixed income

- Local GS curve bull steepened as we saw yields in the long-end adjust higher following a 10-67 re-issuance which was awarded at a deep concession of 50 bps. BTr released its June borrowing schedule with weekly auctions across the curve.

Outlook for the week

Stock market

- The PSEi created a higher low recently so a retest of the previous high (6,750) and possibly of the 50-day moving average at 6,900 is possible. US equities are also showing signs of base building recently so a rally in overnight markets may push the index higher next week.

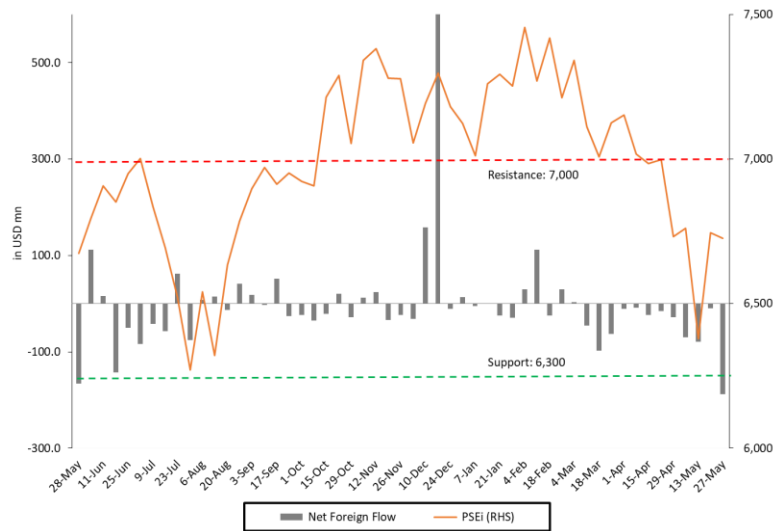
USD fixed income

- Key data for the week will be the May jobs report. A strong print could allay recession fears, and push Treasury yields higher. Range for 10Y yield is 2.70%-2.90%.

PHP fixed income

- With supply an ongoing concern and the BSP keen to raise another 25 bps in June, local bond yields will likely continue to face upward pressure.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Services (+0.60%), Industrials (-0.17%), Property (-0.27%), Mining (-0.28%), Conglomerates (-0.61%), Financials (-1.01%)
Leaders: AEV (+6.25%), ICT (+5.99%), MONDE (+4.38%), AC (+3.08%), MBT (+3.07%)
Laggards: FGEN (-6.11%), CNVRG (-5.53%), BLOOM (-5.45%), JGS (-5.26%), EMP (-4.11%)

Source: Bloomberg, The Philippine Stock Exchange