

Global markets plunge on looming rate hikes amid hot inflation

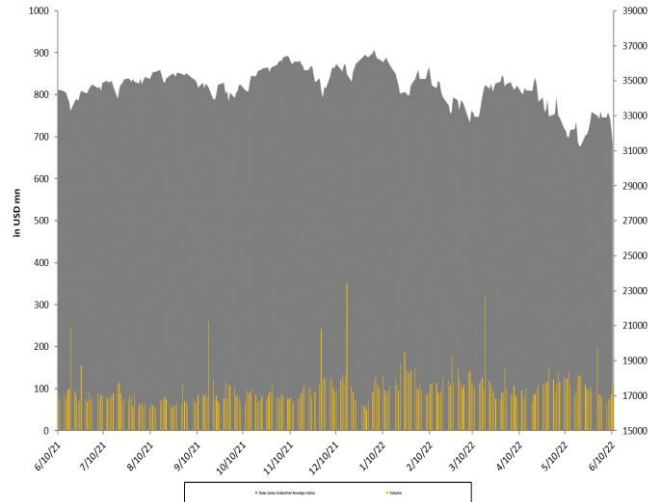
13 June 2022

- US, EU, and PH stocks fall on concerns over inflation and expectations of further monetary policy tightening.
- US Treasury yields soared to YTD highs, while PH 10Y yield closed at 3.15% (+12bps).
- US inflation hits record high in May; ECB to end quantitative easing, raise rates in July and September

US and European equities drop on inflation fears and hawkish central bank

- US equities fell last week, as investors digested the latest US CPI print (8.6% vs consensus 8.3%), and anticipated the Fed may aggressively tighten monetary policy and cause an economic slowdown. The DJIA, S&P 500, and Nasdaq all posted their largest w-w declines since January and ended the week at -4.58%, -5.05% and -5.60% while the VIX spiked by 11.94% w-w. European stocks likewise closed lower as the European Central Bank (ECB) said it would raise rates next month, the first since 2011, followed by a potentially larger increase in September. Major benchmarks were down w-w with the FTSE 100 -2.86% w-w, DAX -4.83% CAC 40 -4.60% and Stoxx 600 -3.95%.

Chart 1 - Dow Jones Industrial Index



Source: Reuters

Source: Bloomberg

US inflation hits record high in May; ECB to end quantitative easing, raise rates in July and September

- The US Labor Department reported that US CPI rose 8.6% y-y in May (from +8.3% in April), the largest y-y increase since December 1981, and surpassing consensus expectations of +8.3%. The latest CPI print reflected surging energy, food, and rent prices which are up 34.6% y-y, 11.9%, and 5.5% respectively. Energy and food prices have been facing upward pressure amidst the Russia-Ukraine war.
- The European Central Bank (ECB) said it would end quantitative easing on July 1, raise interest rates by 25bps on July 21, and increase rates on September 8 by a potentially higher magnitude depending on the inflation outlook. ECB President Christine Lagarde said that the central bank will ensure that inflation returns to the 2% target over the medium term. Currently, inflation is at 8.1% and rising, with the ECB concerned that price growth is broadening.

Interest rates				
USD	10-Jun-22	03-Jun-22	31-Dec-21	+/-
UST 2Y	3.06	2.65	0.73	0.41
UST 5Y	3.26	2.93	1.26	0.32
UST 10Y	3.16	2.93	1.51	0.22
UST 20Y	3.44	3.31	1.93	0.13
UST 30Y	3.19	3.09	1.90	0.11
ROP 3Y	3.25	3.21	0.91	0.04
ROP 4Y	3.56	3.40	0.98	0.16
ROP 9Y	4.05	3.94	2.02	0.11
ROP 10Y	4.01	3.84	2.00	0.17
ROP 24Y	4.68	4.36	2.94	0.31
PHP	10-Jun-22	03-Jun-22	31-Dec-21	+/-
2Y	3.68	3.64	2.59	0.04
3Y	3.68	3.64	2.59	0.04
4Y	5.28	5.26	3.82	0.02
5Y	6.73	6.65	4.71	0.07
7Y	6.38	6.34	4.49	0.04
10Y	6.73	6.69	4.69	0.04
11Y	6.73	6.65	4.71	0.07
20Y	6.72	6.68	5.07	0.04
20Y*	6.72	6.68	5.07	0.04
USDPHP	53.000	52.860	52.580	0.14

Source: Reuters, Wall Street Journal

Source: Bloomberg

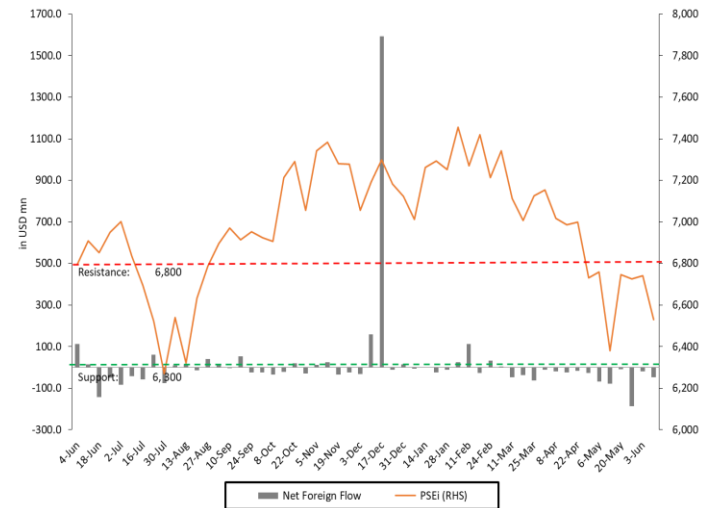
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Philippine Equities

- The PSEi dropped by 3.14% w-w and closed at 6,530.04pts, tracking global markets on inflation concerns as oil prices remained above USD120/bbl. Note that crude oil prices are up 62% YTD, and USD10 away from the YTD peak of USD130/bbl. On the macro front, inflation printed at 5.4% in May (from 4.9% in April), in line with consensus and the highest in 3.5 years. Incoming BSP Governor Medalla signaled at least two rate hikes by August 2022. Meanwhile, FTSE rebalancing will take effect on 17 June 2022 with biggest inflow from SMPH (+6x ADV), RCR (+1.2x ADV) vs outflow from FB (-1.7x ADV). USDPHP looking to break the 53 level after days of consolidation below the resistance OFW remittance set to be released this week with a consensus estimate of 3.5% y-y growth.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Industrial -1.46%, Property -1.79%, Financials -2.21%, Services -4.21%, Holding Firms -4.40%, Mining & Oil -4.89%

Leaders: ACEN +6.33%, WLCON +1.85%, GLO +1.55%, SMC +0.46%, LTG +0.12%

Laggards: CNVRG -7.54%, MEG -6.14%, ICT -6.05%, AC -5.76%, AGI -5.70%

Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- Last week, a hawkish ECB and higher than expected US CPI print for May sent US Treasury yields to fresh YTD highs. ROPs were not spared in the latest global bond rout. 10Y yield closed the week at 3.15% or 12 bps higher.

PHP fixed income

- Local GS curve saw a bit of steepening as market players traded cautiously throughout the week on the absence of fresh catalysts locally, and with the overhang of the US CPI print. USDPHP closed at 53 last week on strong local demand and continued dollar strength.

Outlook for the week

Stock market

- The PSEi may track declines from overnight markets as interest rates rise. The guidance of the incoming BSP Governor Felipe Medalla to hike rates twice by August is a near-term headwind. The PSEi, like S&P, is also trading at resistance levels (below the 50-day MA) prior to the steep decline that we saw at the end of the week.

USD fixed income

- This week's FOMC will be closely watched by market players as the Fed is expected to update its policy guidance. Updated range for 10Y yield is 3% to 3.20%.

PHP fixed income

- Local bond yields will remain under pressure as BT shifts weekly auctions towards the long-end of the curve for the remainder of the month.