

# US recession fears lead to more volatility

## 27 June 2022

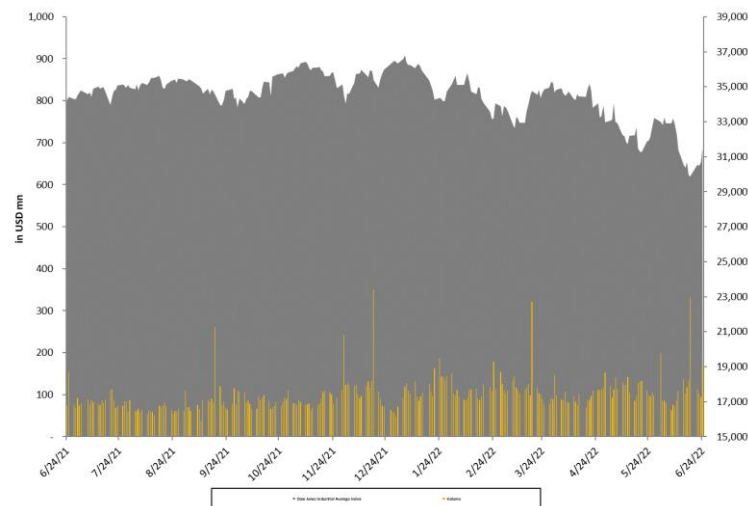
- Concerns of a possible US recession enter equity market considerations; Philippines also benefits from late-week rally along with global markets
- Yields continue to feel pressure of inflation and necessary rate hikes, participants staying defensive and awaiting more data points
- US consumer sentiment hits new low, US recession a “possibility”, Fed members calling for continued rate hikes, G-7 summit ongoing

### Foreign equity markets bounce off of bear market territory. US recession clouds long-term outlook though.

- The major US equity bourses all registered a more than 2.5% daily gain last Friday and managed the first weekly gain since May. The US Fed Chair's statements over the possibility of a US recession led to volatility mid-week however. The Dow Jones, S&P and Nasdaq were +5.39, +6.45%, +7.49% week-on-week, respectively, while volatility was -12.53% for the week.
- EU equity markets tracked the US, though its mid-week sell-down was more pronounced and weekly gains less apparent. Tech, consumer, and media stocks outperformed in spite of concerns over slowing economic growth during the bounce. The FTSE, STOXX 600, CAC and DAX were +2.74%, +2.40%, +3.24%, -0.06% week-over-week last week, respectively.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

### US recession a possibility, more rate hikes needed to stem inflation. G-7 summit meetings started over the weekend.

- US Fed Chairman Powell stated last Wednesday that a US recession is “certainly a possibility” and that it will be “very challenging” to achieve a soft landing in the current environment. Several FOMC members have said that another 75bps rate hike remains appropriate for the upcoming meeting in July. The Fed continues to focus on combating inflation while balancing this with “preserving a strong labor market”. The University of Michigan's consumer sentiment survey, released last week, has shown a record-low reading of 50 for June given high inflation.
- G-7 member nations met on Sunday and pledged to continue supporting Ukraine's defense against Russia's invasion. The group is holding discussions over capping the price of Russian oil through insurance and shipping restrictions. Russia has also launched a fresh bout of airstrikes and missiles at Kyiv over the weekend and has met with its ally, Belarus. Vladimir Putin has promised to provide nuclear-capable missile systems to his Belarusian counterpart though the country itself is not a nuclear power.

Source: JPM

Interest rates				
USD	24-Jun-22	17-Jun-22	31-Dec-21	+/-
UST 2Y	3.06	3.18	0.73	(0.12)
UST 5Y	3.19	3.34	1.26	(0.16)
UST 10Y	3.13	3.23	1.51	(0.10)
UST 20Y	3.52	3.53	1.93	(0.01)
UST 30Y	3.26	3.28	1.90	(0.02)
ROP 3Y	3.47	3.54	0.91	(0.07)
ROP 4Y	3.68	3.71	0.98	(0.03)
ROP 9Y	4.25	4.33	2.02	(0.08)
ROP 10Y	4.21	4.33	2.00	(0.12)
ROP 24Y	4.73	4.86	2.94	(0.13)
PHP	24-Jun-22	17-Jun-22	31-Dec-21	+/-
2Y	3.83	3.45	2.59	0.38
3Y	3.83	3.45	2.59	0.38
4Y	5.69	5.67	3.82	0.02
5Y	7.02	6.99	4.71	0.03
7Y	6.61	6.62	4.49	(0.01)
10Y	7.06	6.94	4.69	0.13
11Y	7.02	6.99	4.71	0.03
20Y	6.46	6.50	5.07	(0.04)
20Y*	6.46	6.50	5.07	(0.04)
USDPHP	54.985	53.750	52.580	1.24

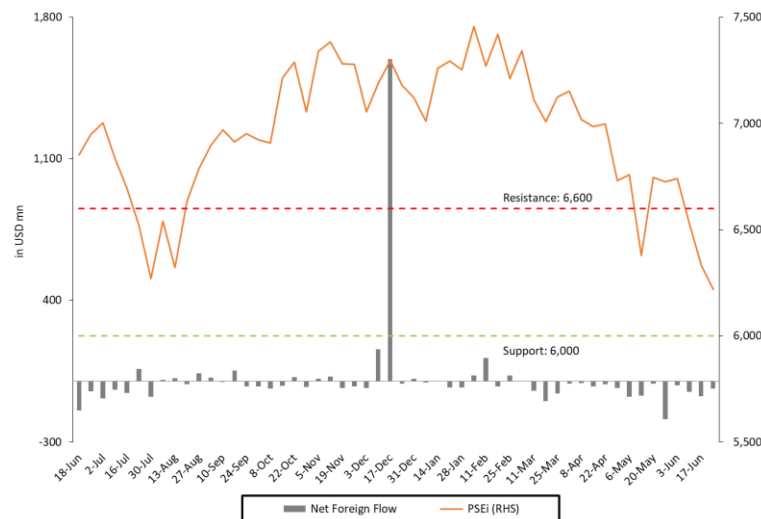
Source: Bloomberg

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### Philippine Equities

- The PSEi was down 1.80% week-over-week to 6,217.56 last week after recovering from deeper intra-week losses on Friday. Most of the negative sentiment last week was driven by concerns over the weakening PHP, elevated inflation, and a possible US recession looming. Foreign selling was evident throughout the week as the PHPUSD continued to weaken and approached the PHP55 level.
- An uptick has been seen in COVID-19 cases, with the DOH reporting 848 new cases for the country yesterday – the highest daily tally since March. Most of the new cases over the last two weeks have been registered in the NCR, followed by the Calabarzon and Central Luzon regions. The rise in cases has been attributed to the entry of new Omicron subvariants into the country. It should be noted though that most of the new cases in recent weeks have been non-severe, with hospital bed occupancy still low at 17.7%.
- On the macro front, the BSP raised the benchmark rate for the second-straight month by 25bps to 2.50% last Thursday. The decision was in line with consensus expectations. The BSP also raised its inflation outlook for this year to 5.0% from 4.6% for this year and to 4.2% from 3.9% for next year last week.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Holding Firms +1.12%, Industrial +0.00%, Property -3.33%, Financials -3.47%, Services -4.89%, Mining & Oil -6.24%

**Leaders:** EMP +10.0%, AEV +5.8%, JFC +4.1%, SM +2.1%, AP +1.7%

**Laggards:** TEL -8.8%, CNVRG -8.2%, BPI -7.1%, ICT -5.0%, MONDE -3.9%

Source: Bloomberg, The Philippine Stock Exchange

### USD fixed income

- The US Treasury curve bull steepened last week after Powell reiterated that the Fed is focused on bringing inflation down to the 2% target range and is willing to deliver the necessary rate hikes. A hawkish Fed and a series of weak economic data contributed to recession fears. 10Y Treasuries fell -10bps w-w and closed at 2.13%.

### PHP fixed income

- Mixed performance across the local yield curve for the week. Front-end and long-end bond yields ended the week 10-20bps higher, while belly was relatively unchanged. BSP delivered a 25bp rate hike last week, in line with market expectations.

### Outlook for the week

#### Stock market

- The PSEi managed to claw back some of its losses this week to end at 6,217.56 (-1.80%) after bouncing off its YTD low of 6,054. We expect bargain-hunting activities to continue as we are near the 1-yr and YTD bottom. Nevertheless, we believe the 6,300-6,400 area will be a strong resistance as rates remain on the rise.

#### USD fixed income

- Market players will maintain close watch of several key data releases this week which include Core PCE, ISM Manufacturing, and Retail Spending. Range for 10Y yield is 3% to 3.30%.

#### PHP fixed income

- Local bond yields will remain under pressure on ongoing supply and inflation risks. The possibility of seeing a more hawkish BSP is also encouraging market players to stay defensive.