

Risk-off sentiment drags equities, buoys fixed income

4 July 2022

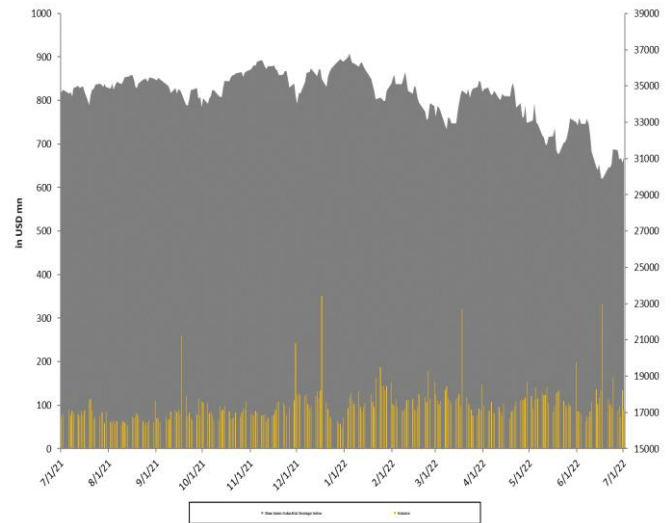
- US, EU, and PH stocks fall amidst lingering inflation concerns and rate hikes as well as lower profit guidance by US corps
- US Treasury and local GS curve bull flatten on recession concerns and risk-off sentiment
- Central bankers warn of further rate hikes; Ukrainian troops withdraw from eastern city of Lysychansk.

US and European equities fall on dampened US corporate earnings outlook and lingering concerns over inflation and rate hikes

- US equities were down last week, as investors focused on the lower profit guidance of several companies in the auto (General Motors), tech (Micron Technology), and retail (Kohl's) sectors. The DJIA, S&P 500, and Nasdaq all posted w-w declines and ended the week at -1.28%, -2.21%, and -4.13% while the VIX dropped by 1.95% w-w. European stocks likewise closed lower on negative investor sentiment due to elevated inflation and interest rate hikes. Note that euro zone inflation hit a record high of 8.6% y-y in June, due to high food and energy prices exacerbated by the Russia-Ukraine war. Major benchmarks were down w-w with the FTSE 100 -0.56% w-w, DAX -2.33%, CAC 40 -2.34%, and Stoxx 600 -1.40%.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Central bankers warn of further rate hikes. Ukrainian troops withdraw from eastern city of Lysychansk.

- Speaking at the European Central Bank's (ECB) annual conference, top central bankers Christine Lagarde, Jay Powell, and Andrew Bailey have warned that the period of low interest rates and moderate inflation has ended. They said that not raising interest rates fast enough could cause high inflation to become embedded and require more drastic action down the line. They added that the pandemic and the Russia-Ukraine war were reversing many of the factors that have led to a decade of low inflation in developed economies. Mr. Powell said the process is highly likely to involve some pain, but the worst pain would stem from allowing high inflation to persist.
- Ukrainian troops have retreated from Lysychansk, the last city under Kyiv's control as Russian troops come closer to capturing the Luhansk region. According to US National Security Council Coordinator for Strategic Communications John Kirby, Russian President Vladimir Putin has shown no interest in negotiations to end the war. At the annual summit last week, G7 leaders discussed imposing price caps on Russian crude.

Source: JP Morgan, Financial Times, Reuters

Interest rates				
USD	01-Jul-22	24-Jun-22	31-Dec-21	+/-
UST 2Y	2.83	3.06	0.73	(0.23)
UST 5Y	2.88	3.19	1.26	(0.31)
UST 10Y	2.88	3.13	1.51	(0.25)
UST 20Y	3.35	3.52	1.93	(0.16)
UST 30Y	3.10	3.26	1.90	(0.15)
ROP 3Y	3.44	3.47	0.91	(0.03)
ROP 4Y	3.58	3.68	0.98	(0.11)
ROP 9Y	4.33	4.25	2.02	0.08
ROP 10Y	4.28	4.21	2.00	0.07
ROP 24Y	4.85	4.73	2.94	0.12
PHP	01-Jul-22	24-Jun-22	31-Dec-21	+/-
2Y	4.30	3.83	2.59	0.47
3Y	4.30	3.83	2.59	0.47
4Y	5.53	5.69	3.82	(0.16)
5Y	6.87	7.02	4.71	(0.15)
7Y	6.61	6.61	4.49	(0.00)
10Y	6.94	7.06	4.69	(0.12)
11Y	6.87	7.02	4.71	(0.15)
20Y	6.73	6.46	5.07	0.28
20Y*	6.73	6.46	5.07	0.28
USDPHP	55.090	54.985	52.580	0.11

Source: Bloomberg

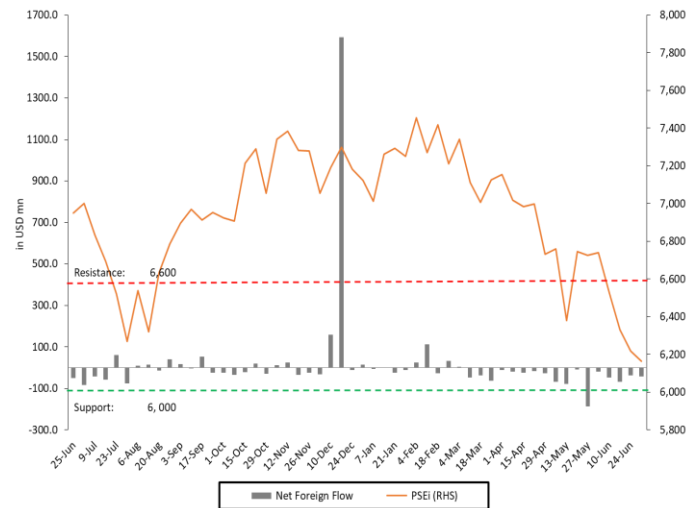
DISCLAIMER: This material is for information purposes only and is subject to change at any time without notice. Sun Life of Canada (Philippines), Inc. does not guarantee its accuracy, completeness, correctness or timeliness for any purpose or reason. This information is given in summary form and does not purport to be complete and should not be considered as advice or recommendation in relation to your holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. You may not revise, transform, or build upon this material without prior written consent of Sun Life of Canada (Philippines), Inc. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant documentation and in particular, you should seek independent financial advice from your Sun Life Financial Advisor.



Philippine Equities

- The PSEi lost 52.21pts last week, closing at 6,165.35pts on Friday (-0.84%) and ended 1H22 down 13.58% YTD, with m-m decline of 9.14% as concerns over higher inflation, higher rates, and fears of a US recession weighed on investor sentiment. Foreign funds remained net sellers at USD41mn during the week, while YTD outflows are at USD779mn. USDPHP broke above 55 level, exacerbating foreign outflows. Note that June CPI is set to be released by July 7 with consensus at 6% (prior month was 5.4%) and in-house forecast at 6.3%. After the inauguration of PBBM last week, investors are waiting for more details on his administration's priorities and economic plans. In the US, economic data releases on June non-farm payroll, unemployment rate and minutes of FOMC meeting will be released.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Financials -3.28%, Holding Firms -2.24%, Property -1.09%, Services +2.31%, Industrial +3.05%, Mining & Oil +4.23%

Leaders: URC +14.38%, CNVRG +13.24%, ACEN +7.73%, SMC +5.11%, GTCAP +4.23%

Laggards: AEV -5.83%, MEG -5.45%, BDO -4.84%, MBT -4.30%, EMP -4.26%

Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- US Treasury curve bull flattened as market shifted focus towards recession concerns following a series of weaker-than-expected data print on manufacturing, retail spending, and housing. 10Y yield fell ~30 bps over the week and closed at 2.88%.

PHP fixed income

- Local GS curve bull flattened after the BTr rejected all bids for the 7Y auction. USD/PHP closed the week at another fresh YTD high of 55.08 on the back of risk-off sentiment and strong corporate demand.

Outlook for the week

Stock market

- The PCOMP currently trades above the 6k psychological support level with market sentiment still weak as seen in low average daily turnover. Investors will focus on June inflation this week, with consensus looking at 6% while in-house forecast at 6.3%. The index may trade between 6,000-6,400 in the short run.

USD fixed income

- US Treasury yields will likely see more downside as recession concerns support bullish momentum of bonds. Key data for the week will be the June employment data. Range for 10Y yield is 2.70% to 3%.

PHP fixed income

- Local bond yields will likely be under pressure this week with the June CPI number due for release tomorrow (July 5) and consistent supply pressure as BTr proceeds with its weekly auction schedule.

DISCLAIMER: This material is for information purposes only and is subject to change at any time without notice. Sun Life of Canada (Philippines), Inc. does not guarantee its accuracy, completeness, correctness or timeliness for any purpose or reason. This information is given in summary form and does not purport to be complete and should not be considered as advice or recommendation in relation to your holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. You may not revise, transform, or build upon this material without prior written consent of Sun Life of Canada (Philippines), Inc. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant documentation and in particular, you should seek independent financial advice from your Sun Life Financial Advisor.