

# Global equities out-perform bonds on US NFP, Fed minutes

## 11 July 2022

- Global equities rallied last week as US June Non-Farm Payrolls beat expectations implying the economy can withstand, per Fed minutes, big hikes
- USTs and local bonds declined last week given aggressive Fed rate hikes for July and prospect of even more hawkish stance in future meetings
- US macro developments were positive last week with June NFP, May PMI and June job openings beat expectations. Biden may lift Chinese tariffs

### US and EU markets bounce back on strong US jobs report

- US stocks staged an early-week rally on Tuesday afternoon after markets reopened after the 4th of July holiday. The strong trend continued into mid-week as stocks edged higher on Wednesday, with investors considering the latest minutes from the Fed. Positive sentiment persisted late into the week, with all three major averages closing higher, thanks to a stronger-than-expected jobs report amidst fears of a possible US recession. The S&P 500 recorded a four-day winning streak on Thursday, matching its best stretch of the year. Meanwhile, the Nasdaq rose five straight days for the first time this year as lower interest rates appeared to boost the tech sector. The Dow Jones, S&P, and Nasdaq indices were up 0.77%, 1.94%, 4.56%, week-on-week, respectively, while volatility (VIX) was down 7.72%.
- EU equity markets mirrored the performance of their US counterparts but experienced a mid-week dip before closing up the week in positive territory. EU stocks closed sharply lower on Tuesday as the Euro registered its lowest level in two decades, owing to rising gas prices, economic growth concerns and the ongoing war in Ukraine. On the STOXX 600, oil and gas stocks led Tuesday losses, despite driving market gains just the day before. EU stocks closed higher on Wednesday and continued their recovery on Thursday. Gains continued on Friday, with EU markets closing higher to end the week, as investors studied Friday's US jobs report. The FTSE, DAX, CAC, and STOXX were up 0.38%, 1.58%, 0.39%, 1.08% week-on-week, respectively.

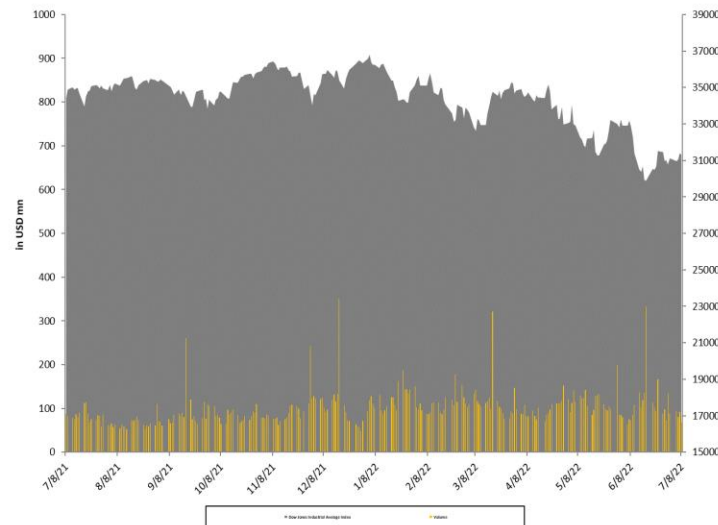
Source: JP Morgan

### Fed minutes point to aggressive July hike, "more restrictive stance"

- According to Fed minutes released last Wednesday, Fed officials said during their June meeting that another rate hike of 50 or 75 bps is likely at their July meeting. Policymakers agreed that "an even more restrictive stance could be appropriate if elevated inflation pressures were to persist." Macro data released last week was generally positive, with employment figures front and center. US factory orders rose 1.6% in May, more than triple consensus. In June, the number of job openings exceeded expectations at more than 11 million, while nonfarm payrolls increased by 372,000, exceeding the 250,000 Dow Jones estimate. Many investors believe that June's strong employment figures will allow the Fed to impose further rate hikes in the coming months. Biden may also announce a rollback of some US tariffs on Chinese consumer goods, though a final decision has yet to be made.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	08-Jul-22	01-Jul-22	31-Dec-21	+/-
UST 2Y	3.10	2.83	0.73	0.27
UST 5Y	3.12	2.88	1.26	0.25
UST 10Y	3.08	2.88	1.51	0.20
UST 20Y	3.51	3.35	1.93	0.16
UST 30Y	3.24	3.10	1.90	0.14
ROP 3Y	3.49	3.44	0.91	0.05
ROP 4Y	3.65	3.58	0.98	0.07
ROP 9Y	4.36	4.33	2.02	0.03
ROP 10Y	4.25	4.28	2.00	(0.04)
ROP 24Y	4.79	4.85	2.94	(0.06)
PHP	08-Jul-22	01-Jul-22	31-Dec-21	+/-
2Y	4.11	4.30	2.59	(0.19)
3Y	4.11	4.30	2.59	(0.19)
4Y	5.74	5.53	3.82	0.22
5Y	6.82	6.87	4.71	(0.05)
7Y	6.43	6.61	4.49	(0.18)
10Y	6.86	6.94	4.69	(0.08)
11Y	6.82	6.87	4.71	(0.05)
20Y	6.78	6.73	5.07	0.05
20Y*	6.78	6.73	5.07	0.05
USDPHP	55.920	55.090	52.580	0.83

Source: Bloomberg

### Philippine Equities

- The local equity bourse closed last week higher, its first weekly gain in five weeks, on easing net foreign selling and expectations of inflation peaking last June. The PSEi gained 196.47 points (+3.19% WoW) to close at 6,361.82 after heavy net outflows tapered significantly and even reversed to inflow by mid-week, albeit in light volumes. With June inflation reported at 6.1% last Tuesday, investors were calling the peak as global commodity prices had largely come off over global economic growth concerns. Back-to-back gains on Tuesday and Wednesday, however, were met with profit-taking towards the weekday as sentiment was still very much risk-off in light of solid US NFP print justifying the Fed's hawkish plan to aggressively hike rates and USD-PHP rate breaching 56.
- For this week, May OFW remittances are due out with consensus currently at 4.5% y/y growth. Investors will continue to monitor Peso weakness to see if BSP's newfound hawkishness has any positive impact. US inflation will also be closely watched with consensus looking at 8.8% y/y for the month of June.

### USD fixed income

- US Treasury yields ended the week higher across the curve following the release of the June FOMC minutes, hawkish Fed-speak and stronger-than-expected US non-farm payrolls numbers for June. 10Y yield closed 20 bps higher WoW at 3.08%.

### PHP fixed income

- Local GS curve bear flattened as yields in the front-end moved higher following more hawkish rhetoric from BSP Gov Medalla. In a statement, he mentioned that a 50 bp rate hike in August is a possibility should inflation continue to print higher in July. This is a shift away from the gradualism communicated earlier.

### Outlook for the week

#### Stock market

- While PCOMP posted a relief rally in recent sessions, lower volume during the run up and continued PHP weakness may limit further upside in the next week.

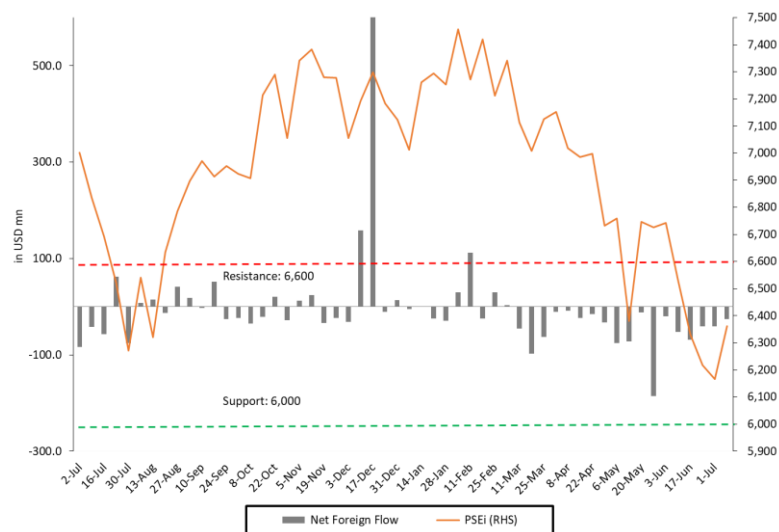
#### USD fixed income

- Key data for the week will be the June CPI number. Market consensus is at 8.8%. A print close to or higher than consensus would more or less confirm a 75 bps rate hike for the month.

#### PHP fixed income

- Local bond yields will likely trade sideways this week as market players stay defensive following BSP's hawkish signals and ahead of upcoming supply.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Holdings (+5.50%), Financials (+3.46%), Industrials (+2.89%), Property (+1.40%), Services (+0.62%), Mining and Oil (-2.40%)

**Leaders:** MEG (+11.06%), URC (+9.63%), AGI (+9.20%), SM (+8.96%), MPI (+6.94%)

**Laggards:** MER (-0.85%), SMC (-1.87%), WLCON (-1.87%), ICT (-3.14%), EMI (-8.38%)

Source: Bloomberg, The Philippine Stock Exchange