

# Global equities rally on US corporate earnings beats, easing energy supply concerns for Europe

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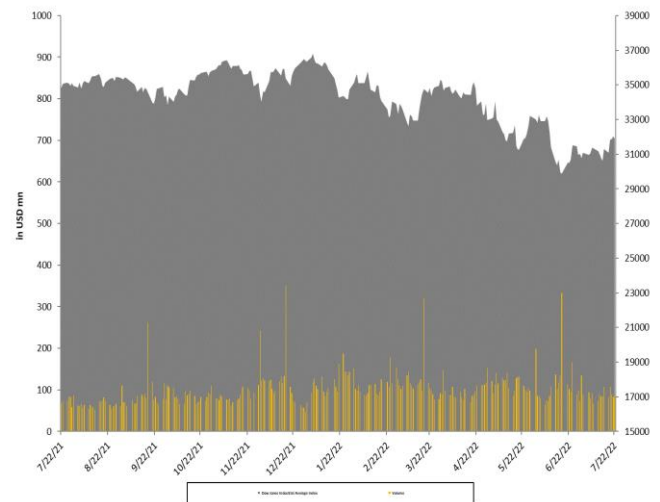
- US, EU, and PH stocks up on earnings beats, easing energy supply concerns, and ahead of President's SONA and 2Q22 earnings season
- Strong demand pushes US 10Y Treasury yield down to 2.75%; PH GS yield curve bear flattens.
- Russia attacks Odesa's sea port after grain exports deal. WHO declares monkeypox as a global health emergency.

## US equities gain on corporate earnings beats, European markets up on easing energy supply concerns

- US stocks closed higher last week, as investors digested strong corporate earnings results, with approximately 21% of companies in the S&P 500 having reported earnings as of last Friday. According to FactSet, close to 70% of these companies beat analysts' expectations. Weekly gains were offset slightly on Friday however, on a tech sell-off given Snapchat's earnings miss. The DJIA, S&P 500, and Nasdaq all posted w-w gains and ended the week at +1.95%, +2.55%, +3.33% while the VIX dropped by 4.95% w-w. European stocks likewise closed in the green as the resumption of Russian gas flows to the region assuaged concerns over energy supply, though gains were tempered by news reports that Euro zone business activity contracted in July (PMI of 49.4 vs 52.0 in June). Major benchmarks were up w-w with the FTSE 100 +1.64% w-w, DAX +3.02%, CAC 40 +3.00%, and Stoxx 600 +2.88%.

Source: CNBC, Reuters, JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

## Russia attacks Odesa's sea port after grain exports deal. WHO issues highest alert for monkeypox.

- Russia attacked Odesa's sea port with cruise missiles on Saturday, one day after signing a deal to resume Ukrainian grain exports from three Black Sea ports (including Odesa). US Secretary of State Antony Blinken said the attack "casts serious doubt" on the grain deal. The Ukrainian military stated that the port's grain storage was not damaged, while Kyiv said preparations to restart grain exports are underway but may suffer if strikes continue. Economic adviser to the Ukrainian president Oleh Ustenko said the country could export 60mn tons of grain over the next nine months, but this could be stretched up to 24 months if port operations are disrupted.
- The World Health Organization (WHO) declared monkeypox as a global health emergency, the highest alert level which indicates that the outbreak warrants a coordinated international response to prevent a further escalation. According to WHO data, there are over 16,000 cases of monkeypox across more than 70 countries reported this year, with confirmed cases up 77% from late June to early July. Over 80% of the infections worldwide are in Europe. The WHO last issued a global health emergency in January 2020 due to the COVID-19 outbreak.

Source: JP Morgan, CNN, Reuters

Interest rates				
USD	22-Jul-22	15-Jul-22	31-Dec-21	+/-
UST 2Y	2.97	3.12	0.73	(0.15)
UST 5Y	2.84	3.03	1.26	(0.19)
UST 10Y	2.75	2.92	1.51	(0.16)
UST 20Y	3.21	3.32	1.93	(0.11)
UST 30Y	2.97	3.08	1.90	(0.10)
ROP 3Y	3.36	3.46	0.91	(0.09)
ROP 4Y	3.45	3.55	0.98	(0.09)
ROP 9Y	4.04	4.39	2.02	(0.35)
ROP 10Y	4.01	4.34	2.00	(0.33)
ROP 24Y	4.53	4.95	2.94	(0.43)
PHP	22-Jul-22	15-Jul-22	31-Dec-21	+/-
2Y	4.85	4.26	2.59	0.59
3Y	4.85	4.26	2.59	0.59
4Y	5.74	5.78	3.82	(0.04)
5Y	6.66	6.70	4.71	(0.04)
7Y	6.42	6.48	4.49	(0.06)
10Y	6.75	6.74	4.69	0.01
11Y	6.66	6.70	4.71	(0.04)
20Y	6.86	6.81	5.07	0.05
20Y*	6.86	6.81	5.07	0.05
USDPHP	56.280	56.360	52.580	(0.08)

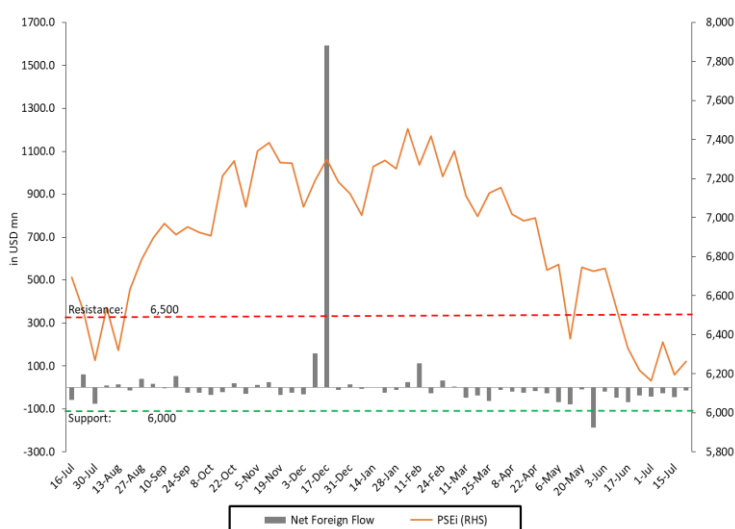
Source: Bloomberg

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## Philippine Equities

- The PSEi traded mostly sideways last week but managed to close 1.1% higher w-w at 6,263.39pts on Friday. Investors await the release of 2Q22 corporate earnings results this week and President Marcos' first State of the Nation Address (SONA) today, July 25. The Asian Development Bank (ADB) raised its GDP growth forecast for the Philippines to 6.5% from 6%, citing the stronger-than-expected 1Q22 growth performance, underpinned by the rebound in investment and household consumption. OFW remittances growth slowed in May 2022 to +1.8% y-y, from +3.9% y-y in April, partly on base effect given last year's fastest growth of +13.1% y-y in May 2021. We note that OFW remittances outlook faces downside risk due to the drag on Europe's economic growth amidst the Russia-Ukraine war and US-led global interest rate hikes. Based on data from the Bangko Sentral ng Pilipinas (BSP), the Philippines' Balance of Payments (BOP) in June stood at a USD1.6bn deficit, wider than the USD312mn deficit in June 2021 and marking the third straight month of deficit. This was attributed to the government's payments of foreign currency debt obligations. Meanwhile, BPI kicked off the 2Q22 earnings season with more companies expected to report this week. Investors will likewise watch closely for clarity in the new administration's policies during President Marcos' first SONA today. The June Money Supply (M3) growth (prior: 6.9%) and Bank Lending (prior: +10.4%) growth figures will be released this week.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Financials +0.02%, Industrial +0.21%, Services +0.96%, Property +1.61%, Holding Firms +2.46%, Mining & Oil +4.90%

**Leaders:** ALI +10.42%, GTCAP +6.33%, AC +5.65%, RLC +3.29%, MEG +3.21%

**Laggards:** GLO -3.52%, SMPH -2.70%, JFC -2.50%, MER -2.48%, SMC -1.23%

Source: Bloomberg, The Philippine Stock Exchange

## USD fixed income

- Over the last week, we saw risk assets and bonds rally as commodity prices ease and markets bet on a Fed pivot as soon as 1Q23. A series of disappointing economic data on jobless claims, business activity and manufacturing stoked recession fears. Demand for safe haven pushed the 10Y Treasury yield down to 2.75%, a two-month low.

## PHP fixed income

- The GS yield curve bear flattened as front-end yields continue to adjust to BSP's hawkish outlook, while the long-end receive sustained interest. USD/PHP closed at 56.28 after trading sideways throughout the week. This is the first time in 7 weeks that spot closed lower w-w.

## Outlook for the week

### Stock market

- The PSEi closed 1.10% higher w-w at 6,263.39 as encouraging macro signals encouraged a bit of risk-taking in the local equities space. Nevertheless, we expect profit-taking to ensue near the 6,300 level as rising inflation remains a key concern for corporate earnings. Investors will be watching for the effects of rising consumer prices in the 2Q22 earnings reports which kicked off last week. On the downside, we believe 6,200 should be well-supported.

## USD fixed income

- For this week, markets will closely follow the FOMC meeting on Wednesday (July 27) and the US 2Q GDP print on Thursday (July 28). The Fed is expected to deliver a 75 bp rate hike and Powell's forward guidance will be keenly watched. For the 2Q GDP print, consensus median expectation is at +0.5%.

## PHP fixed income

- So far, the BTr has raised PHP 130 billion this month, affording it the option to reject high bids in this week's 14Y auction. We expect a strong auction, and bond yields to subsequently rally further.

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