Dovish Fed rhetoric amid GDP miss push all markets higher

1 August 2022

- **Global equities rallied last week as relatively dovish Fed rhetoric post the recent 75bps rate hike and 2Q US GDP contraction point to easing.**
- **USTs and local bonds rallied last week as rising recession risk manifesting in 2Q and recent Fed rhetoric signal peak yields, time to add duration.**
- **Fed's latest FOMC meeting ends in 75bps rate hike decision, guide a pause in hiking later in 2022 in order to assess policy's impact on growth.**

US and EU markets mount robust rally on slightly more dovish Fed

- US equities weekly performance was generally positive, despite the recent 75bps Fed rate hike and looming risks of a US recession. Early last week, poor Walmart results dampened sentiment as doubts emerged whether retail consumption could save the US economy from recession. However, back-to-back events such as the aggressive Fed rate hike and 2Q GDP contraction (a technical recession), proved to be a market clearing event and investors bought up US markets mid-week as they believed the Fed would ease their hawkish stance given serious growth concerns. By Friday, strong tech sector earnings pushed equity performance higher. The Dow Jones, S&P, and Nasdaq indices were +2.97%, +4.26%, +4.70%, week-on-week, respectively, while volatility (VIX) was -7.38% for the week.
- EU equity bourses generally mirrored the performance of their US counterparts, as EU markets likewise braced for a big week on both the corporate earnings and monetary policy fronts. EU stocks registered mixed returns on Monday and Tuesday to kick off the week. On the Stoxx 600, energy and healthcare names outperformed while retail shares slumped on Tuesday. EU markets closed higher on Wednesday as investors awaited the Fed's anticipated rate hike announcement. Thursday brought further gains to EU markets as traders digested new earnings and economic data. Positive investor sentiment caused the major EU equity markets to finish last week in the green, with EU stocks posting their largest monthly gain since November 2020. The FTSE, DAX, CAC, and STOXX were +2.02%, +1.74%, +3.73%, +2.96% week-on-week, respectively.

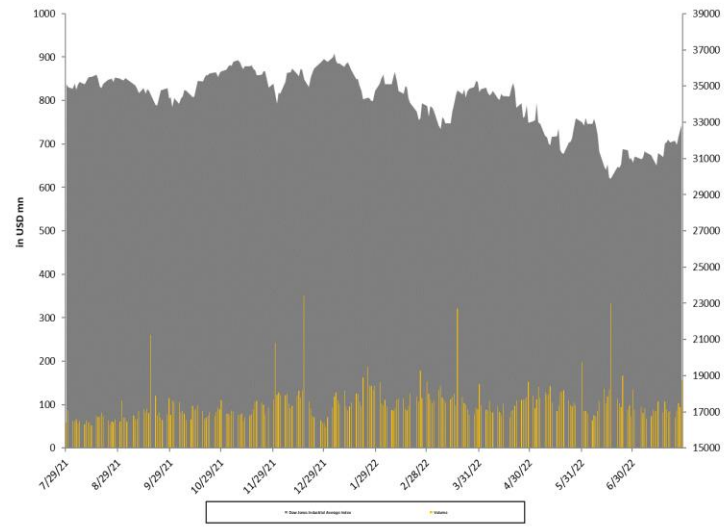
Source: JP Morgan

Fed rhetoric points to rate hiking pause to assess macro impact

- The Fed kicked off its two-day July meeting last Tuesday with the latest announcement of a 75 bps rate hike. Fed rhetoric pointed to a slow down in rate hikes at some point to assess impact. GDP data released last Thursday indicate the US economy was in a technical recession. It contracted -0.9% in 2Q as record inflation stifled consumer spending and the Fed's aggressive rate hikes hindered business investment. Personal consumption rose 1% in 2Q, lower than the 1.8% growth registered in 1Q. Biden downplayed the report, arguing that job growth remains strong while government aide Yellen asserted that the US economy isn't actually contracting, echoing the overall sentiment of the administration. The technical recession puts pressure on the Fed as it continues its balancing act of tempering inflation while preventing the US economy from falling further into recession. Friday brought even more macro data to the table. The Bureau of Economic Analysis reported that the personal consumption expenditures index, an inflation indicator, rose 6.8% in June on a 12-month basis, hitting its highest level since January 1982. Meanwhile, the final reading of the University of Michigan's consumer sentiment index was at 51.5 for July, an improvement from the preliminary reading and higher than June's all-time low reading.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

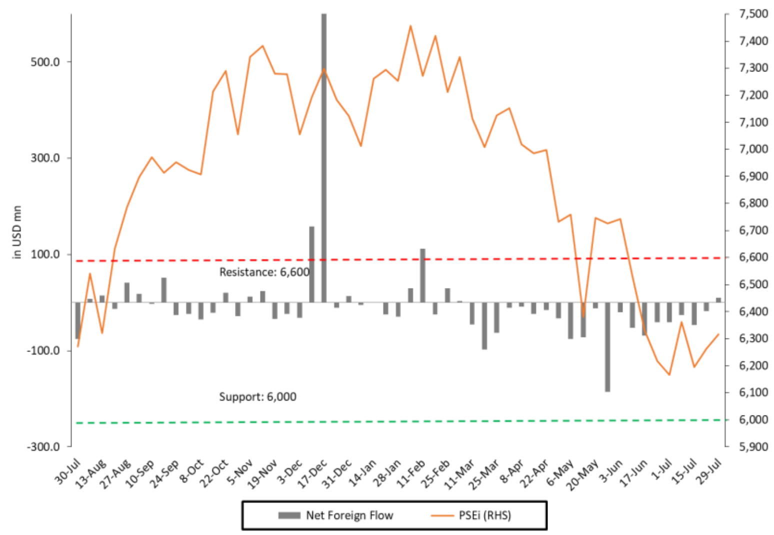
Interest rates				
USD	**29-Jul-22**	**22-Jul-22**	**31-Dec-21**	**+/-**
UST 2Y	2.88	2.97	0.73	(0.09)
UST 5Y	2.68	2.84	1.26	(0.17)
UST 10Y	2.65	2.75	1.51	(0.10)
UST 20Y	3.21	3.21	1.93	0.00
UST 30Y	3.01	2.97	1.90	0.04
ROP 3Y	3.25	3.36	0.91	(0.11)
ROP 4Y	3.42	3.45	0.98	(0.04)
ROP 9Y	3.71	4.04	2.02	(0.33)
ROP 10Y	3.71	4.01	2.00	(0.30)
ROP 24Y	4.32	4.53	2.94	(0.21)
PHP	**29-Jul-22**	**22-Jul-22**	**31-Dec-21**	**+/-**
2Y	4.63	4.85	2.59	(0.22)
3Y	4.63	4.85	2.59	(0.22)
4Y	5.34	5.74	3.82	(0.40)
5Y	6.30	6.66	4.71	(0.36)
7Y	6.13	6.42	4.49	(0.30)
10Y	6.25	6.75	4.69	(0.50)
11Y	6.30	6.66	4.71	(0.36)
20Y	6.84	6.86	5.07	(0.02)
20Y*	6.84	6.86	5.07	(0.02)
USDPHP	**55.130**	**56.280**	**52.580**	(1.15)

Source: Bloomberg

Philippine Equities

- The local equity bourse closed last week higher on positive reception of President Marcos' SONA, good earnings results from some index constituents like WLCON, along with indications the FOMC may ease up on tightening come September. This helped overcome negative sentiment earlier in the week over BDO's cross-default finding on Udenna group. The PSEi gained 52.54 points to close at 6,315.93 (+0.84%) in turnover of Php4.13Bn for the week. In other corporate news for this week, JGS sold some of its shares in MER via overnight placement with MPI picking up 62% of the shares.
- For this week, we see market positioning to reflect the recent PCOMP rebalancing which sees the re-entry of SCC into the bourse while SECB will be removed. More 2Q results due out this week are ALI, MPI, BDO, MBT, SM, TEL and ICT. On the macro front, July inflation is due out with consensus estimates hovering at 6.1%, same as June actual inflation of 6.1%.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Financials (+1.99%), Services (+1.94%), Mining and Oil (+1.72%), Property (+1.19%), Holdings (+0.71%), Industrials (-1.40%),

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

Laggards: WLCON (+20.22%), AEV (+8.87%), ICT (+6.29%), BPI (+4.79%), MBT (+4.07%)

Source: Bloomberg, The Philippine Stock Exchange

USD fixed income

- US Treasury curve bull flattened as market players subscribe to the idea that the Fed will slowdown its pace of hikes for the remainder of the year following the recent 75 bp rate hike, while odds of a recession increase with a negative Q2 GDP print.

PHP fixed income

- Bond yields in the long-end rallied 30 to 50 bps over the week after another strong auction. Market players load up on duration given the prospects of slowing inflation and less hawkish Fed moving forward. USDPHP fell to 55.13, close to the 1-month low, as the dollar ease from the highs.

Outlook for the week

Stock market

- The PCOMP has been base building since mid-June. PSEi rebalancing, corporate earnings releases and global market performance will influence the direction of the index in the short-term. Immediate support and resistance levels are at 6k and 6,450, respectively. Interestingly, the SPX is already trading above 4k which if sustained may provide some positive sentiment to local equities.

USD fixed income

- Key data for the week are the ISM manufacturing print and employment numbers. Momentum for 10Y yield still points to more downside. Next area of resistance is 2.5%.

PHP fixed income

- July CPI is due for release on August 5. Ahead of this, bond yields will likely take cues from US Treasuries and auction results tomorrow.