

# Doubts emerge on Fed rate hiking pause, markets end lower

## 22 August 2022

- Global equities began last week strong but ended lower as Fed minutes and rhetoric, as well as mixed macro data, put view of "pause" to the test
- UST and RoP yields increased as good US labor and retail sales data allay recession fears, despite persistence of hawkish Fed slant per minutes
- Fed minutes show agreement on need to temper rate hikes, but little else. Timing unclear with some voting for 75bps Sept. Recession still likely.

### US and EU markets correct as view of peak hawkishness in doubt

- US equity bourses traded sideways with a slight down-ward bias last week as Fed minutes caused rate hike fears to resurface. For most of the week, US bourses traded sideways as investors tried to keep last week's rally, which lasted into Monday, alive. Expectations of resilient retail performance enough to prevent a recession were overcome by Fed rhetoric that doused water on any hope that monetary would abruptly reverse. While most Fed officials agree the pace of hikes should temper, the timing was very much an open question and at least one Fed president openly doubted inflation could be tamed without a recession, causing US equity markets' summer rally to lose steam. The Dow Jones, S&P and Nasdaq were down -0.16%, -1.21%, -2.62% week-on-week, respectively, while volatility (VIX) was up 5.48% on the week.
- EU equity bourses generally tracked US performance for the week, and for the same reasons, with most European bourses closing lower. Expectations that most EU economies could weather a mild recession caused investors to believe EU central bank monetary policies would pivot/pause hiking and this has caused markets to rally in recent weeks. However, this view was put to the test mid-week as pessimism as UK growth, real wages, employment and inflation took a turn for the worse. Strangely, it was only the FTSE outperforming week-on-week to rise 66bps. By the weekend, equity markets were pricing in continuation of hawkish ECB/BoE monetary policy and recession. Travel, leisure and real estate sectors were down, while defensive sectors like healthcare and consumer staples rallied, amid poor UK retail sales data released last week. The DAX, CAC and STOXX 600 were down 1.82%, 0.89% and 0.80% WoW, respectively.

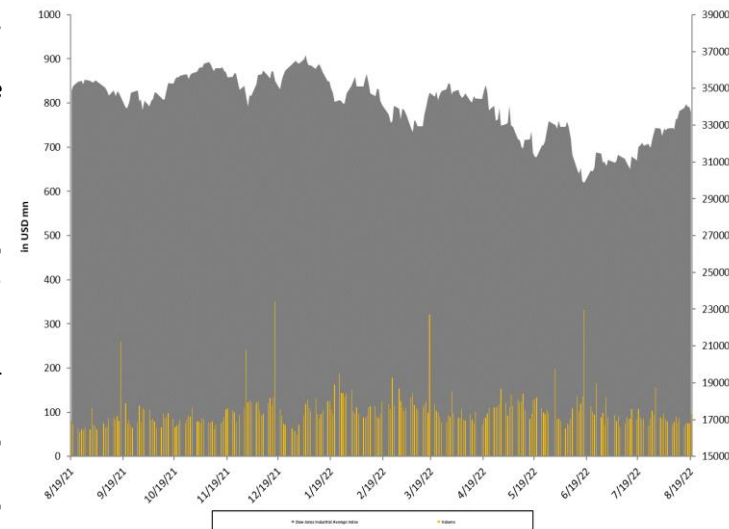
Source: JP Morgan

### Timing of BSP rate hike pause unclear, unlike chances of recession

- July US industrial production printed at 0.6% with manufacturing rising 0.7%, driven by higher motor vehicle manufacturing. Housing (new starts), though, declined worse than expected -9.6% in July reversing June's 2.4% growth. The Fed minutes from last month revealed there was consensus on the need to wind down aggressive rate hikes, but less agreement on the pace/timing with some still voting for a 75bps hike in September. High frequency macro data was mixed with jobless claims falling 250K for the week, but existing July homesales falling 6%.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	19-Aug-22	12-Aug-22	31-Dec-21	+/-
UST 2Y	3.23	3.24	0.73	(0.01)
UST 5Y	3.09	2.96	1.26	0.14
UST 10Y	2.97	2.83	1.51	0.14
UST 20Y	3.44	3.33	1.93	0.12
UST 30Y	3.21	3.11	1.90	0.10
ROP 3Y	3.35	3.29	0.91	0.06
ROP 4Y	3.35	3.34	0.98	0.00
ROP 9Y	3.71	3.56	2.02	0.15
ROP 10Y	3.72	3.55	2.00	0.17
ROP 24Y	4.54	4.29	2.94	0.25
PHP	19-Aug-22	12-Aug-22	31-Dec-21	+/-
2Y	4.37	4.52	2.59	(0.14)
3Y	4.37	4.52	2.59	(0.14)
4Y	5.04	5.15	3.82	(0.11)
5Y	5.89	5.91	4.71	(0.02)
7Y	5.86	5.78	4.49	0.07
10Y	5.89	5.88	4.69	0.01
11Y	5.89	5.91	4.71	(0.02)
20Y	6.54	6.62	5.07	(0.08)
20Y*	6.54	6.62	5.07	(0.08)
USDPHP	55.930	55.610	52.580	0.32

Source: Bloomberg

### Philippine Equities

- The local equity bourse closed last week higher on sustained daily improvements, save for a mid-week dip on the eve of the BSP's Thursday meeting, largely driven by the re-emergence of foreign buying interest in the local market. Also, the BSP confirmed expectations that it is very much on top of inflation, aggressively raising the policy rate by 50bps to 3.75% as was likewise widely expected. The PSEi rose 2.45% WoW to close at 6,863.86 last Friday. In other news last week, FDI pledges grew more than 100% in 2Q22 to Php46.2Bn following the broad macro reopening. Per PSA, retail prices of goods rose 3.5% YoY in April vs. 2.7% in March. Also, average office vacancy in 2Q22 increased to 16.2% from 15.4% in 1Q22 due to new building completions with more uncontracted space.
- For this week, 2Q22 earnings season wrapped up with the 30 PSEi constituents posting 33% yoy earnings growth. Around 83% of PSEi names were either in-line or ahead of consensus expectations. In terms of macro data due out, July M3 and bank loan growth are due out and investors will be on the lookout for more guidance from the BSP on the trajectory for further rate hikes for the balance of 2022.

### USD fixed income

- US Treasury yield curve shifted higher as strong data on jobs and retail sales allayed recession fears, while recent statements from Fed officials and FOMC minutes remain hawkish. 10Y yield rose 14 bps over the week and closed at 2.975%.

### PHP fixed income

- GS curve bear flattened as market players turned defensive following hawkish guidance from the BSP and ahead of the 5.5Y RTB issuance. USD/PHP closed the week at 55.93 on broad dollar strength.

### Outlook for the week

#### Stock market

- The PSEi closed 2.45% or 164.20 pts higher WoW riding on a strong 2Q earnings season and the return of foreign inflows, with a 5-day net foreign buying streak which is the longest streak since February. Last week, foreigners net bought US\$57.19mn worth of Philippine stocks. We might see profit-taking this week as several stocks are already in oversold levels over the short term.

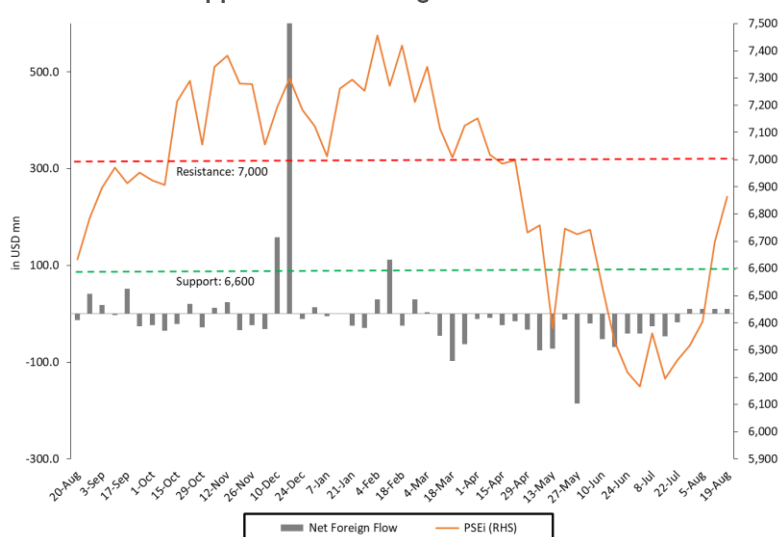
#### USD fixed income

- Given the uncertainty surrounding Fed's rate hike path, the upcoming Jackson Hole Symposium will be closely watched. A volatile week is expected for US Treasuries where we might see 10Y US Treasury yield trade above the 3% level again.

#### PHP fixed income

- The risks of a jumbo RTB issuance and sell-off in US Treasuries will encourage market players to stay defensive.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Mining and oil (+5.4%), Conglomerates (+4.11%), Financials (+3.91%), Property (+1.23%), Industrials (+1.09%), Services (+0.22%)

**Leaders:** AGI (+10.65%), BDO (+9.30%), FGEN (+8.89%), MEG (+8.16%), EMI (+8.08%)

**Laggards:** SMPH (-1.30%), JFC (-1.72%), RRHI (-1.87%), SMC (-1.94%), TEL (-3.74%)

Source: Bloomberg, The Philippine Stock Exchange