

# US Fed statements roil capital markets

## 30 August 2022

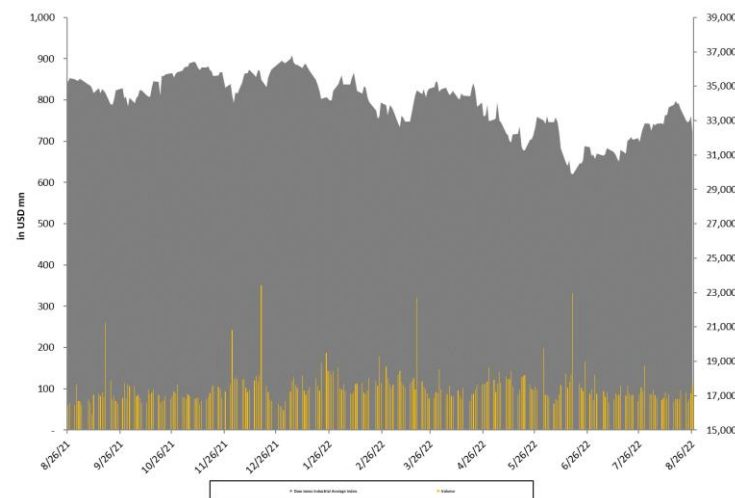
- Foreign equity markets battered following hawkish statements from the US Fed, local market paring gains from recent rally
- Yields trending higher, Philippine fixed income market taking its queue from the US
- Jackson Hole statements point to continued rate increases for the US, recession declaration becomes complicated

### Foreign equity deeply red after Jackson Hole statements were released. Tech and consumer discretionary lead losses.

- Friday's decline was pronounced for US equity, with the Dow Jones dropping more than 1,000 points d-d and accelerating at the close. Information technology, communication, and consumer discretionary all registered deep sectoral losses past 3% for the day. The Dow Jones, S&P and Nasdaq were -4.22%, -4.04%, -4.44% week-on-week, respectively, while volatility was +24.08% for the week.
- EU equity markets likewise felt the brunt of central bank tightening signals, dropping their steepest since early July. Stocks came under further pressure as reports circulated that some ECB officials were eyeing 75bps rate hikes for their September meeting. The FTSE, STOXX 600, CAC and DAX were -1.63%, -2.58%, -3.41%, -4.23% week-over-week last week, respectively.

Source: JPM

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

### US Fed remains focused on fighting inflation, ECB signaling same message. US recession complicated by conflicting data points.

- US Fed Chairman Jerome Powell suggested that another 75bps rate hike next month may be warranted in order to fight against inflation becoming entrenched. The chairman reiterated their focus to bring inflation back down to the 2% goal, which is currently at 40-year highs. Several ECB officials also communicated that the ECB should raise rates by at least 50bps next month to fight inflation. Markets were initially hopeful for a potential dovish pivot in messaging before the statements were released.
- The debate over a US recession has become complicated as second quarter GDP and GDI has diverged, when the two metrics are usually aligned. GDP contracted 0.6% for the period, while GDI rose 1.4%. The contraction in GDI figure suggests that a more gradual cooling of economic activity given still resilient consumer spending and healthy labor market. The National Bureau of Economic Research officially declares whether the US is in a recession and uses both metrics to come to a decision, it has yet to do so at this time.

Source: JPM

Interest rates				
USD	29-Aug-22	22-Aug-22	31-Dec-21	+/-
UST 2Y	3.42	3.31	0.73	0.11
UST 5Y	3.25	3.16	1.26	0.10
UST 10Y	3.10	3.01	1.51	0.09
UST 20Y	3.49	3.47	1.93	0.02
UST 30Y	3.24	3.23	1.90	0.01
ROP 3Y	3.69	3.53	0.91	0.16
ROP 4Y	3.61	3.46	0.98	0.15
ROP 9Y	3.93	3.86	2.02	0.07
ROP 10Y	3.90	3.84	2.00	0.07
ROP 24Y	4.68	4.66	2.94	0.03
PHP	29-Aug-22	22-Aug-22	31-Dec-21	+/-
2Y	4.41	4.39	2.59	0.03
3Y	4.41	4.39	2.59	0.03
4Y	5.07	4.99	3.82	0.08
5Y	5.96	5.89	4.71	0.07
7Y	5.84	5.86	4.49	(0.01)
10Y	5.97	5.89	4.69	0.07
11Y	5.96	5.89	4.71	0.07
20Y	6.54	6.53	5.07	0.01
20Y*	6.54	6.53	5.07	0.01
USD/PHP	56.020	56.210	52.580	(0.19)

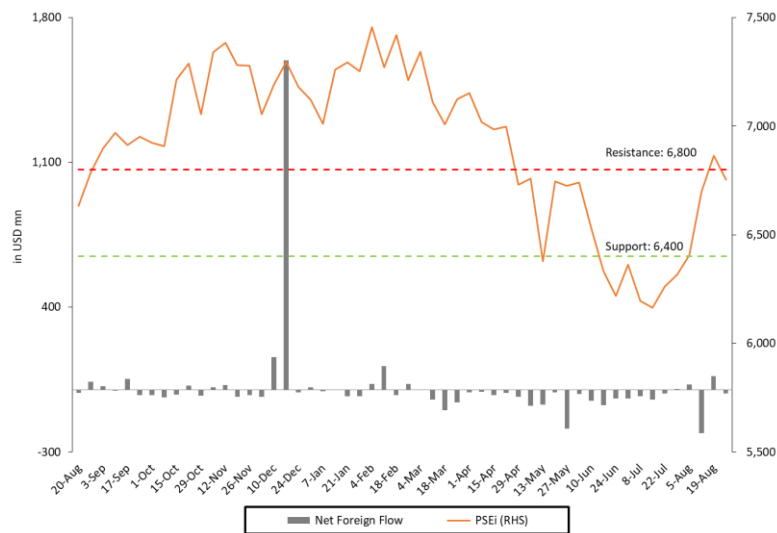
Source: Bloomberg

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### Philippine Equities

- The PSEi was down 1.62% week-over-week to 6,752.50 last week following five straight weeks of gains. Profit-taking for conglomerates and consumer names were accentuated last week, while foreigners reverted to net sellers. Important to note though that the local market closed for the week before statements from the Jackson Hole Symposium circulated the media outlets.
- Daily COVID-19 cases have remained above 2K but have improved vs the recent peak of 4,661 back on August 1, with a downtrend having become apparent. Positivity rate has likewise come down to 13.8% from the recent peak of 18.7%. Bed occupancy remains low at 27.7% with only 66 cases (3.9% of current occupancy) deemed critical. OCTA Research has stated that daily cases may fall below 1K by mid-September given the current trend.
- On the macro front, the Philippines registered a budget deficit of PHP86.8bn last July, down 28.4% y-y. The improvement was off the back of improved revenue collection and tempered government expenditures, which was respectively up 20.5% and 4.8% y-y. For the first seven months of 2022, the budget deficit stands at PHP761bn.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Financials +0.97%, Industrial -1.32%, Property -1.89%, Services -1.92%, Holding Firms -2.65%, Mining & Oil -4.14%,  
**Leaders:** JFC +3.95%, BDO +1.70%, BPI +1.20%  
**Laggards:** ACEN -7.37%, GTCAP -6.62%, AC -6.49%, GLO -5.93%, CNVRG -4.81%

Source: Bloomberg, The Philippine Stock Exchange

### USD fixed income

- US Treasury yield curve shifted higher as Powell's remarks during the Jackson Hole Symposium affirm that a pivot is not in sight, and the Fed is committed to take the necessary steps to bring inflation back to 2%.

### PHP fixed income

- The coupon for the new 5.5Y RTB was set at 5.75%. Offer period is until September 2. Overall, GS yields ended the week higher across the curve, tracking the move in US Treasuries.

### Outlook for the week

#### Stock market

- The PSEi posted its first weekly decline after gaining 5 consecutive weeks to close at 6,752. We expect the local bourse to consolidate and possibly test the 100d MA support at 6,583 in the short-run following US Fed's comments of "higher for longer" in the recent Jackson Hole conference.

#### USD fixed income

- Market is pricing in a 75 bp hike for September. Yields will likely move sideways ahead of the key jobs report data on Friday.

#### PHP fixed income

- Market players will likely stay defensive while waiting for the conclusion of the RTB offer period.