Sun Life Investment Management

WEEKLY NOTE

Bright Morning!

Global markets still down post hawkish Fed commentary

5 September 2022

- Global equities continue to trend lower weeks after Fed "pause" came into doubt. Post Jackson Hole, concerns outweigh good Aug NFP results.
- UST and RoP yields increased, clearly on the back of hawkish Fed rhetoric post Jackson Hole. Additionally, supply risks emerge for local bonds.
- Rent, discretionary demand and job openings stay positive in the US, while production input costs start to cool. Fed evasive on size of next hike.

US, EU markets still on a downtrend post Jackson Hole briefing

- Save for a mid-week relief rally driven by more optimistic expectations for the August US NFP print, US bourses basically logged almost daily declines last week post the very hawkish outcome of the Jackson Hole symposium the week before. Concerns of "higher for longer" Fed policy regime caused US equities to correct sharply, given the likely downturn in economic growth and maybe even corporate profits. This largely watered down the summer comeback rally for equities with half the outperformance already foregone. Despite a mid-week bounce on the back of good August labor data, by Friday it became evident that the solid August NFP print was insufficient to assuage Fed rate hike concerns as US bourses logged their third consecutive weekly decline. The Dow Jones, S&P 500 and Nasdaq closed the week lower by 2.99%, 3.29% and 4.21%, respectively, while volatility (VIX) was flat at -0.35% for the week.
- EU equity bourses tracked US equity weakness last week as the ECB likewise adopted a massively hawkish slant with one official suggesting a 75bps hike this month. This seems supported by the latest Eurozone inflation print, which came out at 9.1% - an all time high. Strangely, some defensive sectors (with respect to recession risk) were sold down such as utilities given possible over-regulation as France threatened to impose a tax on "super profits" and as Russia once again halted gas supplies from Nord Stream pipeline while risk assets such as Tech and energy sectors likewise did poorly as global crude oil prices began to decline and higher yields led to a sell-down on fast growing Tech sector. Euro bourses closed the week lower, just as in the previous week, with the FTSE, CAC and Stoxx 600 down 1.97%, 1.70% and 2.37%, respectively, while the DAX was slightly up week-on-week, rising 0.61%.

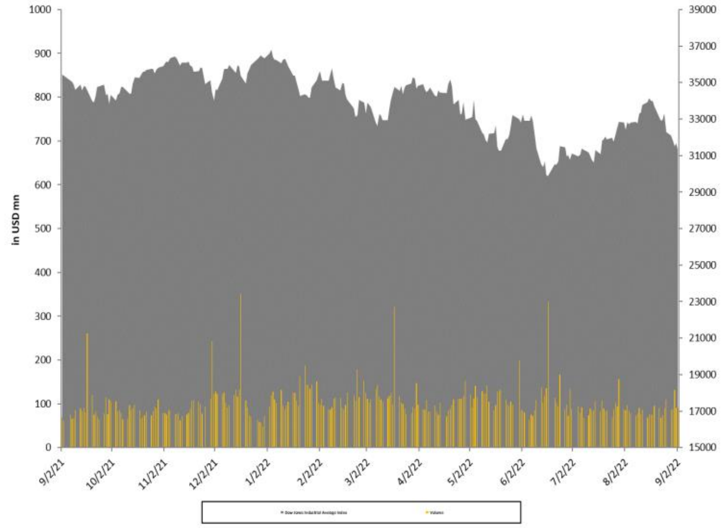
Source: JP Morgan

US macro still running hot, "data driven" Fed silent on size of hike

- Aspects of the US economy remain bullish, such as rent, US consumer sentiment and job opening (JOLTs). Median rent of a one-bedroom apartment was up 12% on the year, while August consumer sentiment surveys show demand for big ticket items like appliances and cars remain firm and the JOLTs survey showed an unexpected increase in openings. Meanwhile, some showed signs of cooling, such as the 7.5 point decrease in input cost index despite ISM gauge staying steady at 52.8. The August Non-Farm Payroll result was 315,000 new jobs for August, meeting consensus expectations. The unemployment rate still suggests full employment but, at 3.7%, was 20 bps higher the Street expectations. The Fed, for its part, has maintained its hawkish rhetoric but avoided providing color on the size of this month's hike. On the one hand, some say if inflation dials down soon, the hike may be less than 75bps, while others are seeing 4% Fed rate in 1Q23 and no cuts next year.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	**02-Sep-22**	**26-Aug-22**	**31-Dec-21**	**+/-**
UST 2Y	3.39	3.40	0.73	(0.01)
UST 5Y	3.29	3.21	1.26	0.09
UST 10Y	3.19	3.04	1.51	0.15
UST 20Y	3.61	3.43	1.93	0.18
UST 30Y	3.34	3.19	1.90	0.15
ROP 3Y	3.85	3.50	0.91	0.35
ROP 4Y	3.76	3.40	0.98	0.36
ROP 9Y	4.12	3.80	2.02	0.32
ROP 10Y	4.08	3.79	2.00	0.29
ROP 24Y	4.88	4.48	2.94	0.41
PHP	**02-Sep-22**	**26-Aug-22**	**31-Dec-21**	**+/-**
2Y	4.58	4.41	2.59	0.17
3Y	4.58	4.41	2.59	0.17
4Y	5.25	5.07	3.82	0.18
5Y	6.06	5.96	4.71	0.10
7Y	5.84	5.84	4.49	(0.00)
10Y	6.17	5.97	4.69	0.21
11Y	6.06	5.96	4.71	0.10
20Y	6.62	6.54	5.07	0.08
20Y*	6.62	6.54	5.07	0.08
USDPHP	**56.770**	**56.020**	**52.580**	0.75

Source: Bloomberg

Philippine Equities

- The local bourse closed lower once again last week, tracking regional weakness in the wake of the Fed's highly hawkish rhetoric at the conclusion of the recent Jackson Hole meeting. The PSEi closed 59.85 points (-0.89%) lower, week-on-week, and end at 6,692.65 as repercussions of "higher for longer" Fed rates caused a massive sell-off early last week amid inflationary pass-through of the probably severe short-term Peso weakness, which hit a record low of Php56.78 vs. the greenback. However, the bourse consolidated mid-week, and eventually recovered last Friday to pare losses by about half following good macro developments such as twelve consecutive months of loan growth last July, at 12%, showing an acceleration for retail lending (5th straight month of growth) and a continuation of the good 2Q pace we saw last earnings season. Also, S&P reported PMI expansion of 51.2 in August (compared to 50.8 in July), prompting bargain-hunting late in the week.
- For this week, markets will be looking at August inflation due out Tuesday (Consensus 6.4%) which is expected to be level with July and peak within 3Q, BSP rhetoric with respect to Fed's recently articulated hawkishness and July export data (consensus is 2.4%).

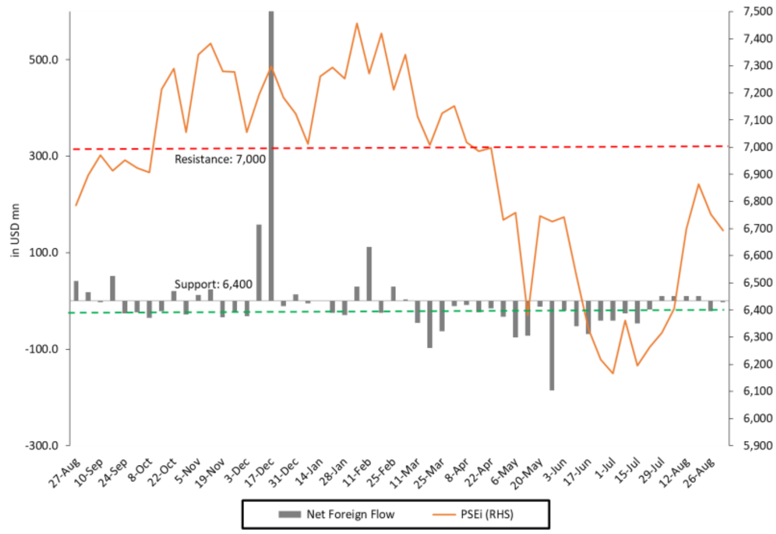
USD fixed income

- US Treasury yield curve shifted higher as market players calibrate rate hike expectations following Powell's Jackson Hole speech. Higher than expected CPI in the EU and a series of good data print in the US also contributed to the sell-off in global bonds.

PHP fixed income

- Local bond yields rose across the curve tracking the move in US Treasuries. Market sentiment turned defensive after BTr bared its weekly auction schedule for September. In addition, upside risks to CPI remain.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Services (-1.77), Financials (-1.5%), Mining and Oil (-1.45%), Property (-1.20%), Conglomerates (-0.50%), Industrials (+0.52%)

Leaders: JFC (+3.71%), GTCAP (+3.24%), AC (+2.64%), EMI (+1.71%), MER (+1.34%)

Laggards: LTG (-5.30%), ACEN (-4.98%), MEG (-4.25%), CNVRG (-3.87%), BDO (-2.81%)

Source: Bloomberg, The Philippine Stock Exchange

Outlook for the week

Stock market

- The market may continue its correction near-term as possible rallies maybe capped by selling from foreign investors due to movements in currency. USDPHP pair continues to be affected by the hawkish stance of US Fed following the Jackson Hole meeting. USDPHP enters a new territory after breaching 56.50, a multi-year high since March 2004. The Dollar Index (DXY) is also on a strong uptrend and looking to reach 110.

USD fixed income

- Market players will likely trade cautiously ahead of the CPI release on 9/13. Range for 10Y US Treasury yield is 3% to 3.25%.

PHP fixed income

- Key data for the week will be the August CPI print to be released tomorrow (9/6). Market will also watch out for tomorrow's 3.5Y auction to gauge market appetite and BTR's awarding behavior.