Sun Life Investment Management

WEEKLY NOTE

Bright Morning!

Global markets down as US Aug inflation support Fed hikes

19 September 2022

- **Global equities continue to decline as US Aug inflation of 8.3% beat estimates. Core inflation trends higher, all but ensuring massive Fed hike.**
- **UST and RoP yields increased, clearly on risk reduction should the imminent Fed hike surpass broadly hawkish expectations.**
- **The US August inflation print dispelled wishful thinking that prices are starting to cool and perhaps the Fed could tone down its hawkishness.**

US, EU markets still on a downtrend post US Aug inflation surprise

- US equity bourses started last week strong on the misguided belief and misplaced confidence that inflation had peaked, but collapsed upon release of the August inflation report which, at 8.3% y/y (+0.10% MoM), came in above expectations. As hopes for cooling inflation and less hawkishness from the Fed were dashed, investors began to bargain hunt following Tuesday's market rout, the largest single day drop in over two years, leading to a slight mid-week bounce. US bourses moved sideways in choppy trading for the rest of the week as conflicting data releases and the disparity of economic views led to a highly confused snapshot of the US economy. The Dow Jones, S&P 500 and Nasdaq were down 4.13%, 4.77% and 5.48% week-on-week, respectively, while volatility (VIX) was up 15.4%.
- EU equity bourses likewise started last week on firm ground, riding the positive sentiment of the previous week's relief rally post the ECB raising rates and demonstrating its commitment to curb inflation across the 19-member bloc. Progress by Ukraine in its bid to drive out the Russian invaders also improved sentiment early last week. However, news of higher-than-expected US August inflation caused massive profit-taking and caused EU investors to take a more sobering view of their short-term macro outlook, especially given the ongoing energy crisis in Europe. The impact of this on households and industry is so grave that drastic measures such as price caps in France, wholesale nationalization of utilities in Germany and rationing of gas across the EU were all in the cards as of last week. European bourses were in steady decline through most of last week. The FTSE, DAX, CAC and STOXX 600 fell 1.56%, 2.65%, 2.17% and 2.89% week-on-week, respectively.

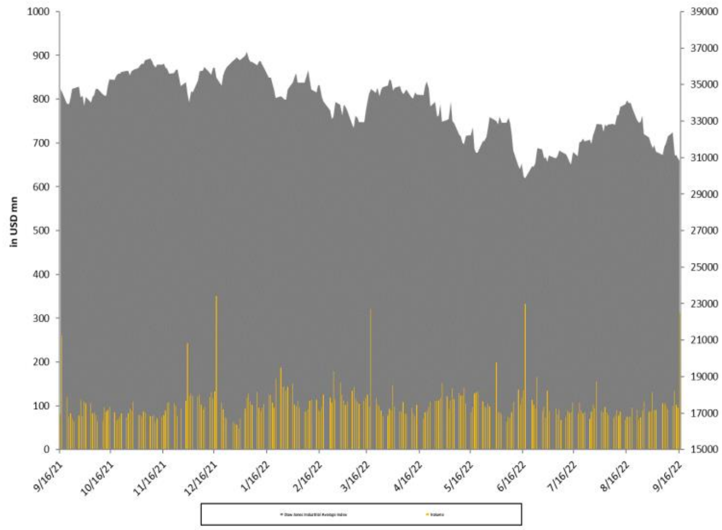
Source: JP Morgan

Aug US inflation dispel notions of cooling, augur massive rate hike

- US August inflation printed at 8.35 year-on-year and rose by 0.10% compared to last July to come in higher-than-expected and lend support to broad expectations of another massive Fed rate hike this September. Core inflation, particularly, is on the rise again and is back at the 6% level and has been the main target of the Fed. Annualized headline US August inflation was off June highs, but still up 8% y/y. Producer Price Index (PPI), meanwhile, was below 9% (vs. 9.8% in July) but largely overshadowed by the high US inflation print. Current Fed fund futures are showing 4.5% peak rate in March 2023.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	**16-Sep-22**	**09-Sep-22**	**31-Dec-21**	**+/-**
UST 2Y	3.87	3.56	0.73	0.31
UST 5Y	3.63	3.44	1.26	0.20
UST 10Y	3.45	3.31	1.51	0.14
UST 20Y	3.78	3.70	1.93	0.08
UST 30Y	3.51	3.45	1.90	0.07
ROP 3Y	4.16	3.88	0.91	0.28
ROP 4Y	4.07	3.86	0.98	0.21
ROP 9Y	4.42	4.22	2.02	0.20
ROP 10Y	4.38	4.13	2.00	0.25
ROP 24Y	5.07	4.86	2.94	0.22
PHP	**16-Sep-22**	**09-Sep-22**	**31-Dec-21**	**+/-**
2Y	5.04	4.71	3.09	0.33
3Y	4.91	4.87	2.59	0.04
4Y	5.82	5.67	4.04	0.15
5Y	6.78	6.16	4.71	0.63
7Y	6.34	6.20	4.49	0.15
10Y	6.69	6.60	4.69	0.09
11Y	6.78	6.16	4.71	0.63
20Y	7.03	6.96	5.07	0.07
20Y*	7.03	6.96	5.07	0.07
USDPHP	**57.430**	**56.820**	**52.580**	0.61

Source: Bloomberg

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Philippine Equities

- The local bourse traded sideways last week with a slight downward bias, losing 57.23 points (-0.87%) WoW to close at 6,548.77. Investors stayed cautious given higher-than-expected US inflation supportive of Fed hawkishness and in turn translating into sustained Peso weakness. The expected pass-thru inflation and similarly hawkish BSP response hit consumer names like MONDE, URC and PGOLD hard, as it did property names, especially those with significant residential development sales like MEG, RLC, ALI and SMPH. July's OFW print turned out to be the highest monthly print in YTD 2022, but did little to assuage investor pessimism. Net foreign flows of $19Mn persisted for the week owing to select name buying such as EMI due to FTSE index inclusion. In other news, CAMPI reported a 91% y/y increased in its brands' unit sales driven by commercial vehicles. Per BSP, June FDI fell 51% y/y to US471mn, a 13-month low, due to rising inflation and borrowing rates. Moody's has retained the Philippines' long-term local and foreign currency issuer and senior unsecured ratings at “Baa2” with a “stable” outlook, and elaborated that challenging global credit conditions are not expected to derail the country's recovery.
- For this week, August budget data is due out. Budget deficit last month was Php-87Bn. Market is expecting a possible "pre-emptive" BSP hike in anticipation of a large move by the Fed come Sept 21st. Investors will be on the lookout for further guidance on inflation and rates by the BSP.

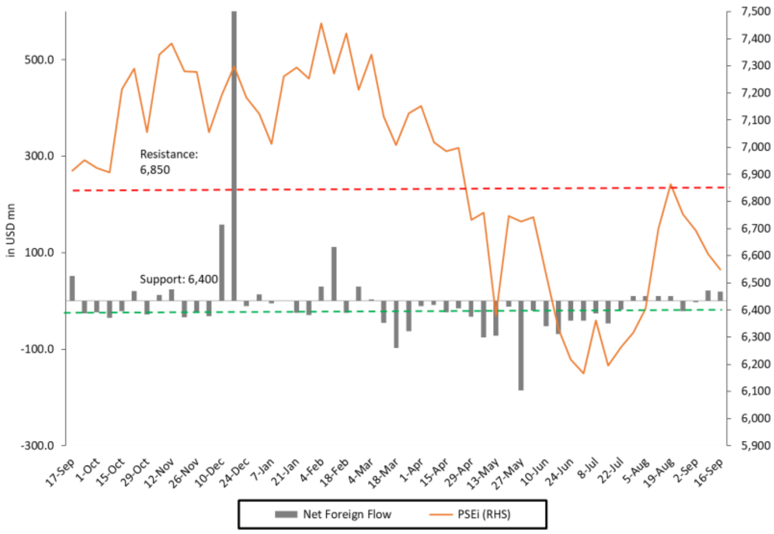
USD fixed income

- US Treasury yield curve shifted higher anew on the back of higher-than -expected inflation print for August. The yield curve continue to flatten and invert further ahead of next week's FOMC meeting where market expects another 75 bp rate hike from the Fed.

PHP fixed income

- Bond yields ended the week up to 15 bps higher as market players remain defensive amidst a weakening currency and bearish sentiment on global bonds. Nonetheless, we continue to see support at current levels as evidenced by the healthy appetite for the new 10Y issuance which was priced within secondary levels, and allowed the BTr to raise PHP 45 billion.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Services (+1.08%), Conglomerates (+0.03%), Property (-0.58%), Financials (-0.98%), Mining (-2.96%), Industrials (-3.50%)
Leaders: TEL (+5.8%), RRHI (+4.73%), GLO (+2.99%), ALI (+2.7%), BLOOM (+2.43%)
Laggards: AGI (-3.68%), BDO (-4.44%), URC (-5.58%), PGOLD (-6.84%), MONDE (-13.81%)
Source: Bloomberg, The Philippine Stock Exchange

Outlook for the week

Stock market

- The PSEi fell for a fourth straight week, ending at 6,548.77 (-0.87% WoW), as investors continued to grapple with how the US Fed will balance choking inflation and preventing a hard economic landing as it continues to increase key rates. While the Philippine is viewed as relatively resilient during a global economic slowdown, the movement of foreign flows with the Peso still at record lows is still dampening domestic sentiment. Hence, we only expect the PSEi to trade in sideways fashion in the near-term.

USD fixed income

- Market players will take cues from the Fed's message in this week's FOMC meeting. 10Y yield has been holding the 3.5% support ahead of the meeting.

PHP fixed income

- Local GS market will likely maintain support at current levels ahead of the FOMC and BSP meeting. Market players to take cues from potential shifts in sentiment in the global market.