

# Equity markets continue to trend markedly lower

## 26 September 2022

- Risk-off at the forefront as equity markets suffer globally, continued PHP weakness not helping matter locally
- Rate increases around the world instigate fixed income sell-off, inflation remains in the crosshairs
- Central banks continue to raise rates across the board, Russia announces mobilization while Iran experiences social unrest

### US & EU equity markets deep in the red last week. US recession fears and rate hikes continue to influence market moves.

- US equity markets focused on the prospects of a US recession last week, affecting tech names disproportionately, while the market was not helped by several poor earnings releases. Darden Restaurants and KB Homes were some of the notable names that missed earnings expectations last week. The Dow Jones, S&P and Nasdaq were -4.00%, -4.65%, -5.07%, week-on-week, respectively, while volatility was +13.76% for the week.
- EU equity markets likewise performed poorly last week, with tech and property names feeling the brunt of selling pressure. The trend was not helped by several rate hikes announced in the region. The FTSE, STOXX 600, CAC and DAX were -3.01%, -4.37%, -4.84%, -3.59% week-over-week last week, respectively.

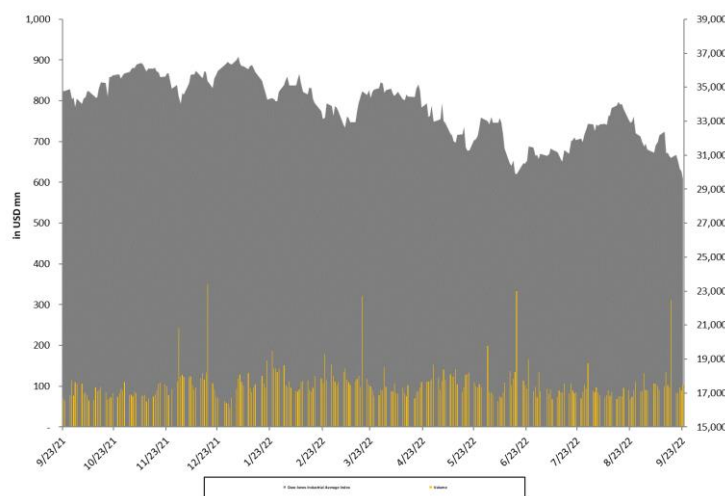
Source: JP Morgan

### Several central banks raise policy rates. Russia decides to mobilize more troops, social unrest mounts in Iran.

- The US, Switzerland, UK, and the Philippines were some of the countries whose central banks announced an increase to their policy rates last week. The US raised rates by 75bps, Switzerland by 75bps, UK by 50bps, and the Philippines 50bps. Note that the ECB raised its policy rate by 75bps at the start of this month. The narrative across all moves remains the same – fighting inflation, with some talk of supporting local currencies ex the US Fed. Concerns over a US recession also increased last week as the US mortgage rate hit its highest level since October 2008.
- Russia announced a “partial mobilization” last Wednesday as it called-up 300K reservists. This was the first official mobilization announced by the country since World War II. The move is meant to support its military action in Ukraine, with Russia suffering material setbacks in recent weeks. In another part of the world, Iran has been dealing with increasing social unrest since the death of Mahsa Amini who died while in police custody due to allegedly breaking hijab rules. Protest have broken-out across the country, with the government declaring that it would “deal decisively” with the unrest.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

| Interest rates |           |           |           |        |
|----------------|-----------|-----------|-----------|--------|
| USD            | 23-Sep-22 | 16-Sep-22 | 31-Dec-21 | +/-    |
| UST 2Y         | 4.20      | 3.87      | 0.73      | 0.33   |
| UST 5Y         | 3.98      | 3.63      | 1.26      | 0.35   |
| UST 10Y        | 3.68      | 3.45      | 1.51      | 0.24   |
| UST 20Y        | 3.89      | 3.78      | 1.93      | 0.11   |
| UST 30Y        | 3.61      | 3.51      | 1.90      | 0.09   |
| ROP 3Y         | 4.64      | 4.16      | 0.91      | 0.48   |
| ROP 4Y         | 4.53      | 4.07      | 0.98      | 0.46   |
| ROP 9Y         | 4.78      | 4.42      | 2.02      | 0.36   |
| ROP 10Y        | 4.68      | 4.38      | 2.00      | 0.30   |
| ROP 24Y        | 5.31      | 5.07      | 2.94      | 0.24   |
| PHP            | 23-Sep-22 | 16-Sep-22 | 31-Dec-21 | +/-    |
| 2Y             | 4.44      | 5.04      | 3.09      | (0.59) |
| 3Y             | 5.05      | 4.91      | 2.59      | 0.14   |
| 4Y             | 5.87      | 5.82      | 4.04      | 0.05   |
| 5Y             | 6.90      | 6.78      | 4.71      | 0.12   |
| 7Y             | 6.70      | 6.34      | 4.49      | 0.35   |
| 10Y            | 7.01      | 6.69      | 4.69      | 0.32   |
| 11Y            | 6.90      | 6.78      | 4.71      | 0.12   |
| 20Y            | 7.20      | 7.03      | 5.07      | 0.17   |
| 20Y*           | 7.20      | 7.03      | 5.07      | 0.17   |
| USD/PHP        | 58.500    | 57.430    | 52.580    | 1.07   |

Source: Bloomberg

### Philippine Equities

- The PSEi was down 4.42% week-over-week to 6,259.54 last week as the market continued to track continued weakness in the PHP and general risk-off sentiment. The local currency hit a new all-time low of PHP58.50 to the USD last week and is down 12.83% year-to-date. The PHP has been plagued by concerns over the Philippines' twin deficits, apart from US Fed hawkishness.
- Metro Manila COVID-19 cases have trended higher as its positivity rate has started to approach 18% - a level not seen since mid-August. OCTA Research believes that there may be a chance that the NCR will see 2,000 cases per day come October given the current trend. The reproduction rate in the region is now past 1.20, signaling that cases will continue to rise. Hospital utilization though remains low though, below 40%, while most new cases appear relatively benign.
- On the macro front, the BSP raised benchmark rates by 50bps last week – in-line with expectations. The move did little to help the currency, however. The central bank has raised rates a cumulative 225bps so far this year to 4.25%. It also revised its inflation forecast for the country to 5.6% for this year and 4.1% for next year.

### USD fixed income

- For the September FOMC, we saw the Fed deliver another 75bps rate hike. This brings the Fed funds to 3% to 3.25%. Powell reiterated that the Fed is committed to do what it necessary to bring down inflation, and acknowledged that the fight against inflation will entail some pain in the economy. 10Y Treasury yield rose 23bps during the week, and the yield curve bearflattened.

### PHP fixed income

- In line with the Fed's direction, the BSP delivered a 50bp hike, bringing the policy rate to 4.25%. BSP Governor Medalla highlighted the importance of achieving target CPI as rational behind the move. During the week, bond yields rose 15 to 30bps across the curve with long-end last seen trading at 7%.

### Outlook for the week

#### Stock market

- The PSEi has declined for five straight weeks as concerns over higher rates for longer and continuous PHP depreciation resulted to risk off sentiment. The local bourse may range trade between 6,000-6,400 in the near term as macro headwinds linger. Next catalyst will be 3Q corporate earnings which may provide some relief to the market if 1H22 earnings trend continues. We remain cautious for now, trimming some positions that have panned out but remain watchful for opportunities on some names which we think will recover faster than the general market.

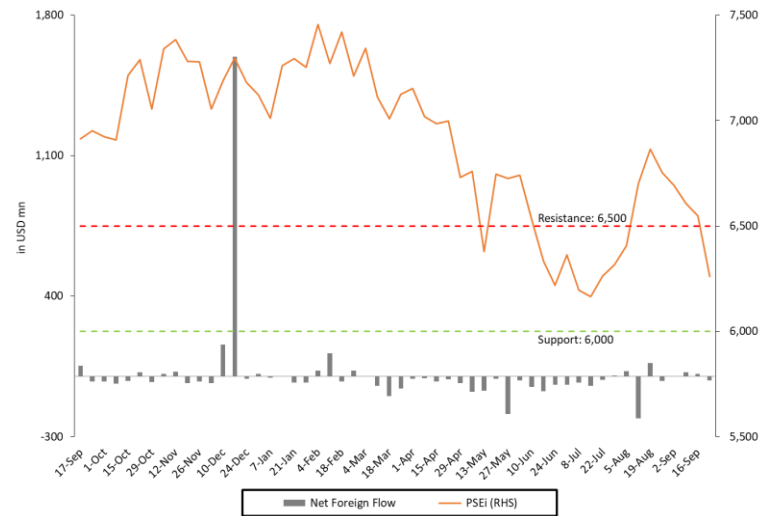
#### USD fixed income

- Treasuries may continue to sell-off as Central Banks around the world take the necessary steps to rein in inflation and combat the surge in US dollar. 10Y yield will likely trade within the 3.50% to 4% range over the week.

#### PHP fixed income

- The sell-off in bonds globally and the strong dollar will continue to weigh on market sentiment. As such, we expect the 16Y auction this week to fetch bids within the 7.25% to 7.50% range.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Mining and Oil -1.26%, Financials -2.57%, Services -3.40%, Industrials -3.65%, Holding Firms -4.68%, Property -7.18%

**Leaders:** SMC +2.79%, GLO +2.64%, EMI +2.01%, AEV +1.06%, WLCON +0.51%

**Laggards:** CNVRG -12.49%, ALI -12.43%, RLC -10.06%, ACEN -8.55%, TEL -7.43%

Source: Bloomberg, The Philippine Stock Exchange