Sun Life Investment Management

WEEKLY NOTE
Bright Morning!

Equity markets fall to new lows amid global fear
3 October 2022

- **Equities continued woes amid rate hike expectations; local markets reacted negatively to the inflation implications of typhoon Karding.**
- **Yields trended upward as risk assets sold off following developments in the UK. PH trading activity muted as market players remain defensive.**
- **Worrisome economic data continues to pressure yields upward in the West, while Russia attempts to annex occupied Ukrainian Territories**

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

- Despite a short-lived rally in the middle of the week, US equities continued their downward trend, testing new lows for the year following earnings downgrades on some large cap names (Apple) and expectations of more aggressive moves from the Fed. The Dow Jones, S&P, and Nasdaq were down -2.92%, -2.91%, and -2.69% week-on-week, respectively. Volatility (VIX) was +5.68% for the week.

- EU markets performed poorly as well, although to a lesser degree than US counterparts, as market anxiety over the health of the region's economy and continued concerns about inflation expectations remained prominent. Euro-area economic confidence dropped to its lowest level since 2020 on record inflation and concerns on a looming energy crisis. The FTSE, STOXX 600, CAC and DAX were -1.78%, -0.65%, -0.36%, and -1.38% week-on-week, respectively.

Source: JP Morgan, WSJ

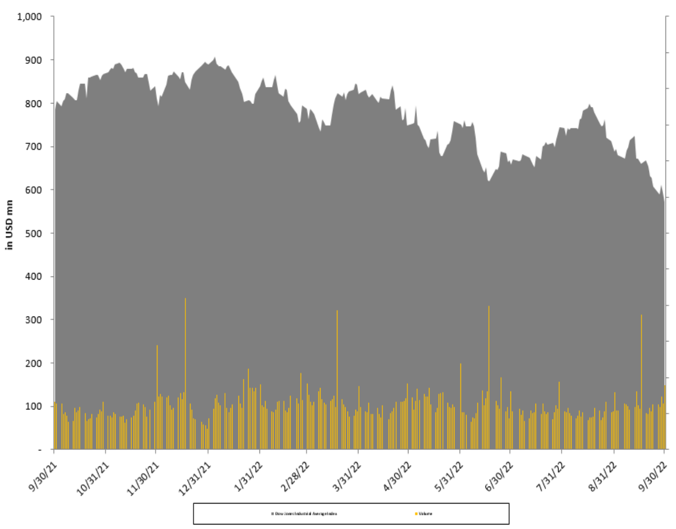
Worrisome economic data pressures yields upward. Russian President Putin signs decree to annex occupied areas of Ukraine.

- Initial filings for unemployment claims in the US fell to their lowest level in 5 months last week, undershooting expectations by over 10%. The strong labor numbers come amid the Fed's efforts to cool the economy and bring down inflation, suggesting that more aggressive action from the Fed is required to bring down inflation. This coincides with the 3rd and final release by the Bureau of Economic Analysis confirming that the US economy slowed by -0.6% in 2Q22, signaling a technical recession. The sustained combination of a strong labor market and a slowing US economy continued to stoke fears that a potential recession won't stop the Fed from raising rates significantly.

- Russian President Vladimir Putin has moved to annex four occupied Ukrainian territories, signing so-called "accession treaties" to formalize the matter. Moreover, Putin called on Ukraine to end hostilities and negotiate with Moscow, but he insisted that the status of the annexed territories was not up for discussion. The move was condemned by the UN, US President Biden, and other world leaders, as they refused to acknowledge the validity of the annexation. The US detailed specific penalties including visa restrictions on military officials, sanctions on Russian government and banking officials, and penalties on entities that supply Russia's military. Beyond that, US president Biden said that he would be signing off on an additional $12 billion in aid to Ukraine and stated that America and NATO would defend every inch of NATO territory. In response to Putin's moves, Ukrainian President Zelensky announced a surprise bid for fast-track membership of NATO on Friday.

Source: JP Morgan, WSJ, CNBC

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	**30-Sep-22**	**23-Sep-22**	**31-Dec-21**	**+/-**
UST 2Y	4.28	4.20	0.73	0.08
UST 5Y	4.09	3.98	1.26	0.11
UST 10Y	3.83	3.68	1.51	0.14
UST 20Y	4.09	3.89	1.93	0.20
UST 30Y	3.78	3.61	1.90	0.17
ROP 3Y	5.00	4.64	0.91	0.36
ROP 4Y	4.83	4.53	0.98	0.30
ROP 9Y	5.05	4.78	2.02	0.27
ROP 10Y	5.04	4.68	2.00	0.36
ROP 24Y	5.58	5.31	2.94	0.27
PHP	**30-Sep-22**	**23-Sep-22**	**31-Dec-21**	**+/-**
2Y	4.58	4.44	3.09	0.14
3Y	4.97	5.05	2.59	(0.08)
4Y	5.90	5.87	4.04	0.03
5Y	6.94	6.90	4.71	0.04
7Y	6.73	6.70	4.49	0.04
10Y	7.22	7.01	4.69	0.21
11Y	6.94	6.90	4.71	0.04
20Y	7.37	7.20	5.07	0.17
20Y*	7.37	7.20	5.07	0.17
USDPHP	**58.625**	**58.500**	**52.580**	0.13

Source: Bloomberg

Philippine Equities

- The PSEi was down -8.28% WoW and closed at its lowest level for the year at 5,741.07. The country's agricultural losses (P2.95Bn) due to Typhoon Karding added to the concern of growing inflation within the country, as vast amounts of crops were rendered unusable. This, alongside continued expectations of global slowdown, continued the negative sentiment for the equities market. The local currency continued to depreciate against the dollar, closing at PHP58.741, just below all-time-highs for the currency pair, as the market continues to expect US-PH interest rate differentials to narrow.
- Metro Manila COVID-19 cases have continued to increase, with daily average infections at 2,794. Metro Manila's positivity rate wen tup slightly to 18.9%, while the reproduction number decreased to 1.10. According to the DOH, cases would range between 4,000-8,000 if compliance to minimum standards continue to be relaxed. Healthcare utilization remained a bright spot, declining to 30 bps to 35%.
- Preliminary data from the BTr showed outstanding debt increased by 1% to a record-high P13.02 trillion at the end of August due to additional borrowing and a weak peso. The debt pile has risen 11% YTD, as the country continues to borrow heavily. 68% of the outstanding debt is domestic, with the BTr stressing continued reliance on domestic borrowing to mitigate the impact of currency fluctuations.

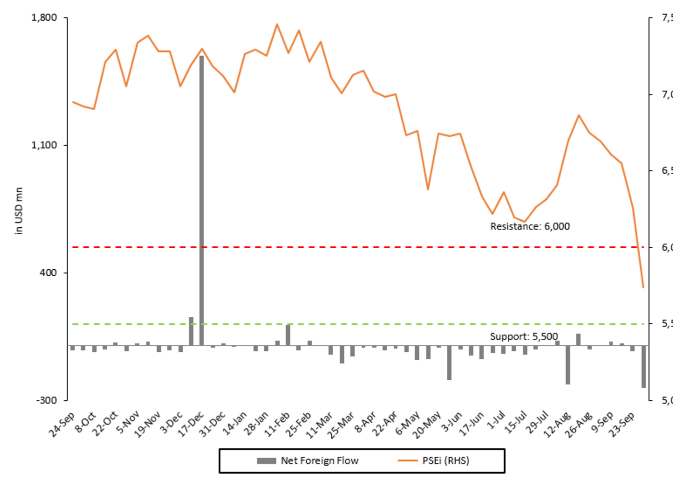
USD fixed income

- Markets did not welcome the unfunded tax cuts planned by the UK government. As such, UK risk assets and the pound were sold off sharply. To restore market order, the Bank of England (BoE) intervened and announced unlimited long-end bond purchases. The volatility spilled over to other asset classes as well. We saw the 10Y US Treasury hit 4% before closing the week at 3.83%.

PHP fixed income

- Trading activity was muted throughout the week as market players stayed defensive given the upward momentum in US Treasuries and local inflation risk. However, some buyers came in towards the end of the week following BTr's rejection of the 16Y auction (average of 7.565%) and improvement in global risk sentiment. Overall, yields rose 5 to 12 bps across the curve.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Financials -5.38%, Mining and Oil -6.10%, Services -8.17%, Industrials -6.16%, Services -8.17%, Property -9.36%

Leaders: WLCON +7.58%, RLC +1.23%, SMC +0.31%, URC -1.81%, AP -1.91%

Laggards: GTCAP -14.10%, ICT -13.91%, CNVRG -13.47%, MER -12.39%, SMPH -11.60%

Source: Bloomberg, The Philippine Stock Exchange

Outlook for the week

Stock market

- As the PSEi enters oversold levels, we may begin to see some basing out at the 5,700 level as bargain hunters pick up battered names amidst the sell-down. Inflation numbers coupled with BSP's language surrounding monetary policy will also drive sentiment. Ideally positive catalysts would be lower than expected inflation, as well as more aggressive language from the BSP regarding its intention to raise rates and protect the PHP. We remain cautious , trimming some positions that have panned out but also remain watchful for opportunities in some names which we think the sell down is no longer warranted.

USD fixed income

- Volatility may persist given uncertainties surrounding the impact of UK's fiscal plan and geopolitical developments in Russia/Ukraine. In the US, the September jobs report will be out on Friday. Should data continue to paint a picture of a tight labor market, we can possibly see the 10Y Treasury yield go beyond 4%.

PHP fixed income

- For the upcoming week, key data release will be the September CPI number on October 5. BSP's inflation forecast is 6.6% to 7.4%, while median figure amongst economists is 6.8%. A high inflation print increases the odds of an off-cycle hike from the BSP.