Sun Life Investment Management

WEEKLY NOTE

Bright Morning!

Sentiment cuts short last week's relief rally across all assets

10 October 2022

- Global equities were up last week, off a low-base, given bargain-hunting which quickly turned into profit-taking given recent macro data releases
- UST and RoP performance tracked equities with early-week rally then decline post the mid-week to eventually end flat week-on-week
- Expectations of recession begin to reflect in US consumer sentiment and manufacturing growth, but robust labor data supports Fed hawkishness

US, EU markets up on low-base effect post mid-week sell-down

- Volatility was apparent in US equity markets with bourses mounting a strong relief rally early last week following the previous week's crash (Dow not lower than 29,000 since Nov 2020), then declining for the rest of the week on souring sentiment but still up week-on-week. US bourses began 4Q on strong footing, mounting an abrupt relief rally that by Tuesday saw the S&P up 5.7% - the strongest two-day rally since March 2020. The persistence of bearish market sentiment precluded US bourses from maintaining this upswing and weakness returned for the balance of the week, given excess market volatility resulting in fear and, by Friday, the September labor report that showed that, while NFP additions (263k) were below estimates (275k), the unemployment rate was lower and average hourly earnings was higher, driven by a broad rebound across different sectors of the US economy and all but guaranteeing sizable Fed hikes in the near future. The Dow Jones, S&P and Nasdaq were up 1.99%, 1.51% and 0.73% WoW, respectively, while volatility (VIX) moved sideways, slightly falling by -0.82%.
- EU equity bourses moved almost in lockstep with US bourses last week, likewise mounting a strong two-day rebound as 4Q began following the sharp downturn the previous week. The relief rally in Europe was driven by OPEC's inclination to cut oil output, driving the energy sector up 3.1%. Then, in UK, the GBP strengthened as PM Liz Truss reversed course on planned tax cuts for the wealthy. Lastly, several EU sectors reported higher-than-expected producer prices (+5% vs. 4.9% forecast) last August. By mid-week, EU bourses began to correct after strong business fundamentals of US firms precluded any dovish pivot on the part of the Fed. This was compounded by reinforcement of recession fears in Europe, given the September PMI disappointment. Markets continued to decline up through Friday given the expectations of a more-or-less robust US Sept labor report, but were still up week-on-week given the low base effect. The FTSE, DAX, CAC and Stoxx 600 were uniformly higher last week, rising 1.41%, 1.31%, 1.82% and 0.98% WoW.

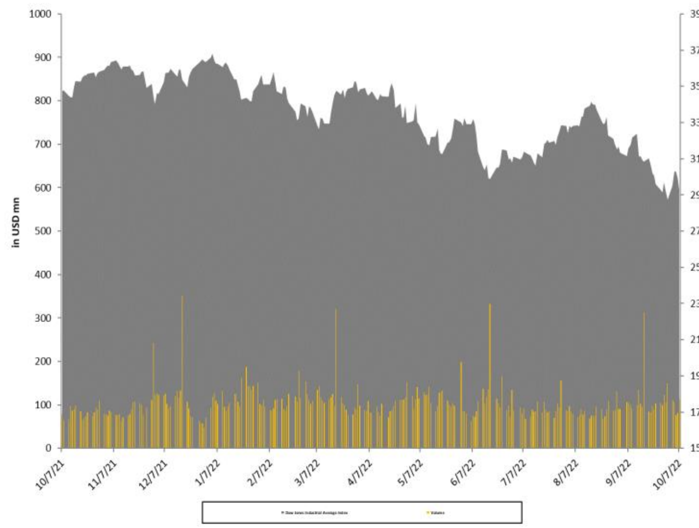
Source: JP Morgan

US macro data reflect recession expectations, fuel for Fed hawks

- It was a data-rich week for the US economy last week. Signs that the public is beginning to price in an economic downturn, induced by the Fed, began to result in souring consumer sentiment (U Michigan CS index at 58.6 vs. 59.5 expected). US manufacturing (ISM index) also fell by 2 points to 50.9 in September (vs. 52 estimate) and the same was true for global manufacturing (first decline in 2 years). Per the JOLTS report, there were 1.1 Mn fewer job openings in the US last August compared to July. However, Friday's Sept NFP report showed unemployment was lower than expected and the Sept ADP report showed 208k jobs added (vs. 200k expected). Lastly, the latest Fed commentary suggests that rate cuts are off the table in 2023 and are far from even pausing, despite the Yellen's warning of "global strain". The ECB, meanwhile, eventually went with 75bps this Sept., after some internal discord, and with a caveat that future hikes may vary in size vs. Fed.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	**07-Oct-22**	**30-Sep-22**	**31-Dec-21**	**+/-**
UST 2Y	4.31	4.28	0.73	0.03
UST 5Y	4.14	4.09	1.26	0.05
UST 10Y	3.88	3.83	1.51	0.05
UST 20Y	4.14	4.09	1.93	0.05
UST 30Y	3.84	3.78	1.90	0.07
ROP 1Y	5.15	5.00	0.91	0.15
ROP 2Y	4.97	4.83	0.98	0.14
ROP 8Y	5.08	5.05	2.02	0.03
ROP 9Y	5.07	5.04	2.00	0.03
ROP 23Y	5.60	5.58	2.94	0.02
PHP	**07-Oct-22**	**30-Sep-22**	**31-Dec-21**	**+/-**
2Y	4.71	4.58	3.09	0.13
3Y	5.28	4.97	2.59	0.31
4Y	6.02	5.90	4.04	0.12
5Y	6.94	6.94	4.71	(0.00)
7Y	6.69	6.73	4.49	(0.04)
10Y	7.23	7.22	4.69	0.01
11Y	6.94	6.94	4.71	(0.00)
20Y	7.40	7.37	5.07	0.03
20Y*	7.40	7.37	5.07	0.03
USDPHP	**58.920**	**58.625**	**52.580**	0.30

Source: Bloomberg

Philippine Equities

- The local equity bourse broke its 6-week losing streak last Friday to gain 191.12 points (+3.33%) on the week and closing at 5,932.19. Bargain hunting nursed the PSEi up from its lowest level in 2 years, encouraged by the broad relief rally in global risk assets, though failing to overcome the 6,000 resistance. Macro news released last week were that of September inflation, which edged higher to 6.9% (vs. 6.3% in August), and unemployment of 5.3%, itself higher than 5.2% for August. However, local manufacturing activity did pick up with September PMI rising to 52.9 from 51.2 in August. The largest index gainer, ICT (+13.4% WoW), benefited from massive buy-backs to the tune of 600 thousand shares, while previous gainers like WLCON turned largest loser this week, down -11.4%, on the profit-taking as inflation is and will stay elevated (recent fare hikes and impact of typhoon) with no BSP response until their meeting in mid-November when a consensus 50bps hike is expected.
- For this week, investors will continue to watch the BSP for comments on inflation and rate hike trajectory for the rest of 2022. Peso weakness will be top of mind as markets consider data due out this week such as August trade balance and OFW remittances.

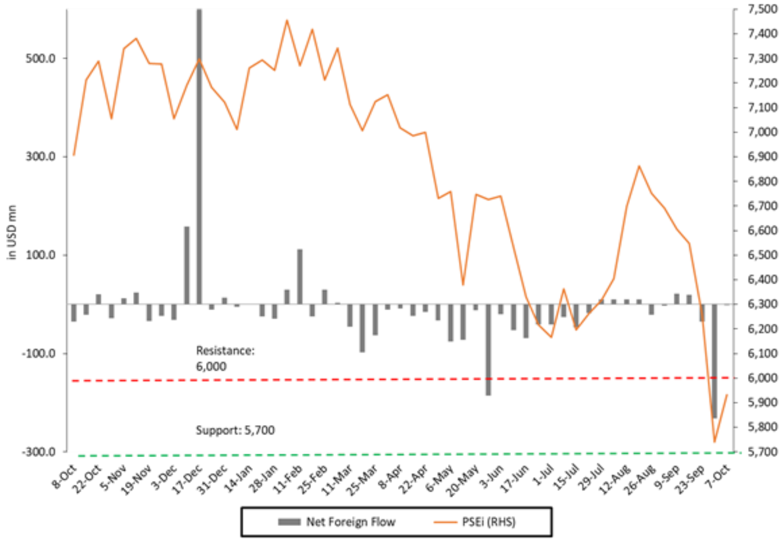
USD fixed income

- Markets saw yields fall as much as 25 bps during the week but closed relatively flat to slightly higher week-on-week as participants take bets on the flurry of employment data in the US. The 10Y US treasuries closed 3.881 on Friday.

PHP fixed income

- Local bonds followed on the moves of the US treasuries, seeing a brief rally early in the week but eventually closing flat week on week. The Bureau of Treasury was seen issuing 3-year BTR significantly higher than market levels, pushing market to get back on defensive and halting the rally.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Conglomerates (+3.67%), Services (+3.58%), Property (+3.00%), Industrials (+2.32%), Mining (+2.26%), Financials (+2.20%)
Leaders: ICT (+13.41%), MER (+12.32%), GLO (+6.40%), AEV (+5.50%), SM (+4.83%)
Laggards: RLC (-2.91%), URC (-3.07%), GTCAP (-3.75%), PGOLD (-4.42%), WLCON (-11.42%)
Source: Bloomberg, The Philippine Stock Exchange

Outlook for the week

Stock market

- 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. We think there will be a continued consolidation around the 6,000 level in the coming days.

USD fixed income

- US treasury yields may continue to see upward pressure as employment data remains to show significant strength as well as the Federal Reserve remaining hawkish on yields, some Federal Reserve members are still keen to see long end yields to reach 4.5%.

PHP fixed income

- Local bonds may continue to see weakness throughout the week as all eyes are on the Bureau of Treasury as it looks to auction new 7 year bonds.