

# Equity markets fall to new lows amid global fear

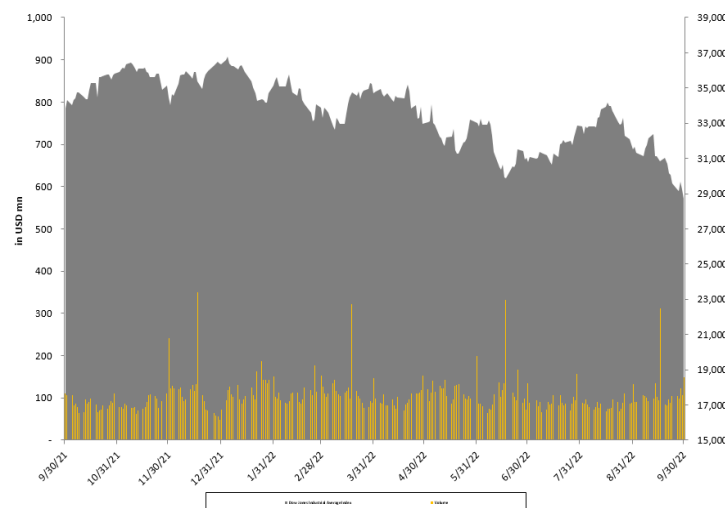
## 24 October 2022

- Equities were positive amid strong earnings and UK macro view; local markets tracked foreign positive sentiment
- Strong economic data and hawkish fedspeak encouraged recalibrations of interest rate expectations
- Credit card data shows strong consumer spending; Kherson, Ukraine battle reaches a critical juncture

### US & EU markets end positive after choppy trading mid week amid strong earnings and positive news.

- US equities had a volatile week, as the early uplift to equity markets from strong earnings reports was countered by negative sentiment midway through the week amid rising Treasury yields. The major indices ended the week in positive territory with the Dow Jones, S&P 500, and the Nasdaq up +4.88%, +4.74%, and +5.22% week-on-week, respectively. VIX was -7.3% for the week
- EU markets performed similarly to US markets early on in the week, as positive reactions to the UK's fiscal U-turn and new EU measures to tackle energy prices were measured by the market. Despite dropping on Wednesday amid UK inflation data and recession fears, the major indices ended flattish to positive for the week. The FTSE, STOXX 600, CAC and DAX were -0.2%, +1.3%, +1.7%, and +2.3% week-on-week.

Chart 1 - Dow Jones Industrial Index



Source: JP Morgan, WSJ

### Credit card data shows strong consumer willingness and spending; Kherson, Ukraine battle reaches a critical juncture.

- Credit card data from American Express and BofA showed US consumers' willingness to pay higher prices in the face of a sluggish economy. American Express data showed that overall customer spending jumped 21% YoY, driven by growth in goods and services as well as travel and entertainment. Travel and out of home consumption were particularly resilient; Amex saw travel and entertainment spending climb 57% YoY. According to the company, international market travel and entertainment volumes surpassed pre-pandemic levels for the first time in the 3<sup>rd</sup> quarter. Other recent economic data, though, shows signs of stagnation in consumer spending. Retail and food services sales were little changed for September, according to the advance estimate from the US Commerce department.
- Russian occupation authorities in Kherson, Ukraine told civilians on Saturday that they should leave immediately because of what they called a tense military situation as Ukraine's forces advance. The battle for Kherson, which has been under Russian control for almost 8 months, reaches a critical juncture as Ukrainian forces threaten to pin Russian troops along the Dnipro River's west bank. The Kherson region was one of four regions that Russian President Vladimir Putin said last month that Moscow was claiming "forever" as its own territory. Putin has said previously that he is prepared to resort to nuclear weapons if necessary to defend the annexed regions, while the annexations were condemned as illegal by Ukraine, its allies, and the UN General Assembly.

Source: Bloomberg

Interest rates				
USD	21-Oct-22	14-Oct-22	31-Dec-21	+/-
UST 2Y	4.47	4.50	0.73	(0.02)
UST 5Y	4.34	4.27	1.26	0.07
UST 10Y	4.22	4.02	1.51	0.20
UST 20Y	4.58	4.30	1.93	0.28
UST 30Y	4.33	3.99	1.90	0.34
ROP 3Y	5.50	5.44	0.91	0.07
ROP 4Y	5.39	5.22	0.98	0.17
ROP 9Y	5.64	5.35	2.02	0.28
ROP 10Y	5.63	5.31	2.00	0.32
ROP 24Y	6.19	5.83	2.94	0.36
PHP	21-Oct-22	14-Oct-22	31-Dec-21	+/-
2Y	4.98	4.72	3.09	0.27
3Y	5.73	5.26	2.59	0.47
4Y	6.49	6.22	4.04	0.27
5Y	7.24	7.12	4.71	0.12
7Y	6.82	6.77	4.49	0.05
10Y	7.35	7.17	4.69	0.18
11Y	7.24	7.12	4.71	0.12
20Y	7.18	7.31	5.07	(0.12)
20Y*	7.18	7.31	5.07	(0.12)
USD/PHP	58.750	58.935	52.580	(0.19)

Source: Bloomberg

Source: JP Morgan, WSJ, CNBC

## Philippine Equities

- The PSEi was up 1.33% WoW and closed at 5,983.56. The week was relatively volatile for local equities, as the index advanced as much as 4.12%, just under 6,150 before settling below the 6,000 level. Optimism in global markets found its way onto the local bourse before sentiment reversed amid a surge in US Treasury yields and hawkish rate signals from the PH Finance chief on Friday. The local currency strengthened slightly relative to the dollar, closing at PHP58.88 most recently.
- The DoH logged 1,702 new COVID-19 cases on Saturday even as the active tally dipped to 23,713, marking the second straight day that fewer than 2,000 new cases were recorded. NCR had the highest number of new infections in the past 2 weeks, followed by Calabarzon, Central Luzon, and Western Visayas. The positivity rate continued to drop in the NCR to 15% while certain provinces across the country reported higher positivity rates above 20%.
- The country's BOP remained at a deficit at \$2.3bn in September, significantly larger than the \$572m deficit in August. The deficit was due to the payment of foreign debt and the country's fx operations, bringing the 9mo result to a deficit of \$7.8Bn. On the other hand, OFW remittances rose 4.3% YoY to \$2.72bn in August, bringing 8mo remittances up 3%.

## USD fixed income

- Over the last week, the combination of strong economic data and hawkish Fed speak encouraged market players to re-calibrate their peak Fed Funds rate expectations to 5%. However, risk sentiment improved towards the end of the week after some Fed officials hinted on stepping down the magnitude of hikes after the November meeting. Overall, the US Treasury yield curve bearsteepened.

## PHP fixed income

- The Bureau of Treasury fully awarded the new 10Y bond at a coupon of 7.50% in last week's auction. This is 25 bps higher than the coupon recorded for the 10Y issuance last June. Rest of the curve adjusted higher post-auction. Market sentiment remains defensive amidst supply pressures in the long-end, inflation concerns, and hawkish BSP rhetoric. Meanwhile, USD/PHP continues to hold the 59 level, as several officials have publicly stated that the government is willing to defend the peso and prevent a breach of the 60 level.

## Outlook for the week

### Stock market

- The PCOMP failed to hold the psychological 6,000 level as of market close on Friday, 21 October, albeit on lower than average volumes. Failure to reclaim this may spell further downside back to the 5,700 support. With more earnings releases scheduled in the next two weeks on top of the Fed's rate hike decision on Nov 2, markets may trade sideways on light volumes as investors remain on the sidelines pending further catalysts.

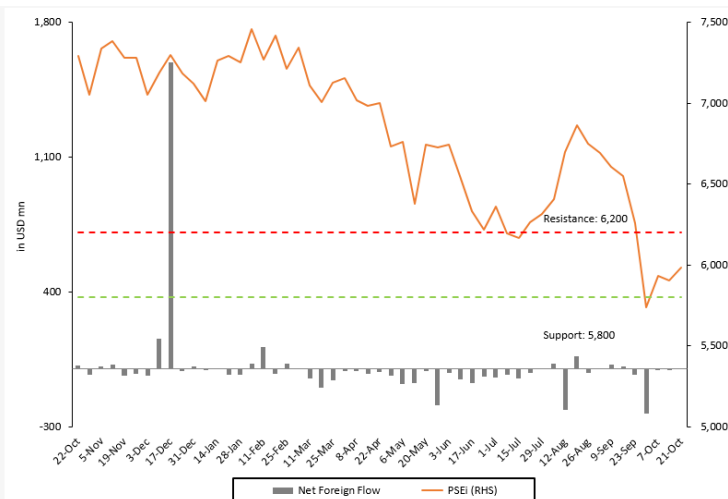
### USD fixed income

- Treasuries have room to rally as market will likely re-calibrate rate hike expectations to account for recent comments from Fed speakers. 10Y yield will likely be supported at 4.35%.

### PHP fixed income

- Market players will continue to stay on the sidelines and be hesitant to add on duration on account of the current macro backdrop. Yields will tradesideways and possibly adjust higher should the government award the 13Y auction with a generous concession.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Property +2.71%, Holding +1.98%, Mining and Oil +1.67%, Services +1.58%, Bank -0.27%, Industrials -0.61%

**Leaders:** ALI +10.43%, AGI +9.34%, AC +8.39%, GLO +5.91%, TEL +4.20%

**Laggards:** RLC -9.52%, AEV -3.63%, MONDE -3.48%, WLCON -2.99%, JFC -2.42%

Source: Bloomberg, The Philippine Stock Exchange