

Risk sentiment resurfaces on chance of Fed rate hike pause

2 November 2022

- Global equities were up last week as macro data showing CB policies are working may lead to a pause. 3Q corporate results season under way.
- USTs bear-flattened last week on the chance Fed may taper rate hikes soon. Local GS curve also steepened on supply risk in the long end.
- Though US 3Q GDP surprised to the upside, macro data shows Fed rate hikes are pressuring investment in and sales of residential properties.

US, EU markets up, hurdling CB rate hikes and look to 3Q results

- US bourses closed generally higher WoW last week save for a mid-week dip on weaker than expected Tech sector earnings. US investors sought to prolong the previous' week's rally early last week, encouraged by tempering bond yields as they continue to monitor how economic indicators respond to recent and imminent Fed rate hikes. Silicon valley giants like Microsoft, Alphabet, Facebook/Meta missed earnings expectations, though, causing a mid-week dip, while names like Apple produced firm numbers. Post the 3Q US GDP print, evidence of inflation starting to wane promptly caused investors to bet on improving economic health. US bourses were likewise up towards the weekend, despite also the sell-down on Amazon, as new data reinforced decelerating inflation and steadying consumer sentiment. The Dow Jones, S&P and Nasdaq were up 5.15%, 3.95% and 2.24%, week-on-week, respectively.
- EU equity bourses also had a good week last week, given resolution on the UK leadership gap (new PM Rishi Sunak took office). Optimism on 3Q corporate earnings, especially given the recent decline in gas prices (EU members reached an agreement on joint gas purchases at a meeting in Luxembourg) and their consequent impact on inflation, supported risk sentiment. The ECB 75bps rate hike proved to be a clearing event, as markets rallied further after the policy adjustment especially because the ensuing commentary was not as hawkish as previously thought. The prospect of a pause or temperance in hikes did not take away from corporate results. Lastly, Germany bucked expectations as they managed another quarter of growth, escaping the deceleration seen in France and Spain. The FTSE and Stoxx 600 were up 1.12% and 3.65%, week-on-week, respectively.

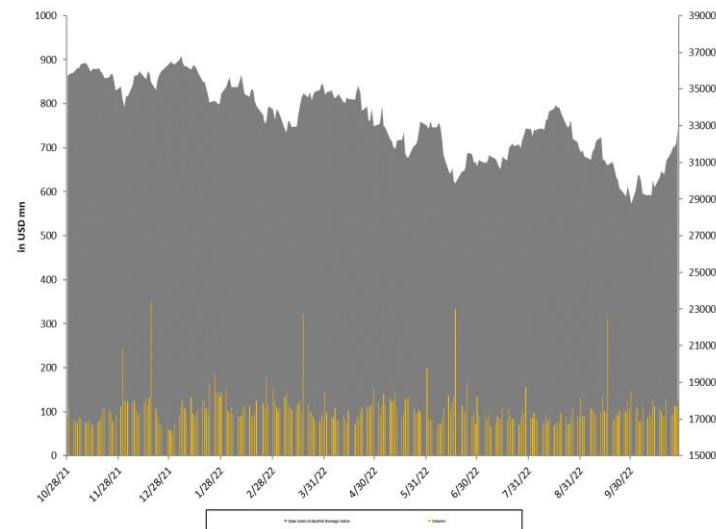
Source: JP Morgan

Recent data show Fed hikes starting to work, trade is still resilient

- There was generally positive US macro news last week, starting off with US 3Q GDP which, at +2.6% y/y (annualized), beat expectations and rebounded off two back-to-back contractions. It seems to have been driven by the beat on personal consumption. Even though the strong print was driven mostly by trade, this was still taken positively because parts of the economy that are tanking, like residential housing investment, show that sharply higher rates are starting to have the desired effect (of the Fed). Indeed, per Case-Schiller, August housing market prices in 20 major US cities fell 1.3% - the worst since GFC. September US home sales fell 11% in September to 603,000 (annualized).

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	01-Nov-22	25-Oct-22	31-Dec-21	+/-
UST 2Y	4.54	4.48	0.73	0.07
UST 5Y	4.27	4.26	1.26	0.01
UST 10Y	4.04	4.10	1.51	(0.06)
UST 20Y	4.36	4.48	1.93	(0.12)
UST 30Y	4.09	4.26	1.90	(0.17)
ROP 3Y	5.60	5.64	0.91	(0.05)
ROP 4Y	5.35	5.47	0.98	(0.12)
ROP 9Y	5.33	5.59	2.02	(0.27)
ROP 10Y	5.31	5.60	2.00	(0.30)
ROP 24Y	5.68	6.14	2.94	(0.46)
PHP	01-Nov-22	25-Oct-22	31-Dec-21	+/-
2Y	5.07	4.84	3.09	0.23
3Y	5.62	5.72	2.59	(0.10)
4Y	6.49	6.51	4.04	(0.01)
5Y	7.28	7.36	4.71	(0.08)
7Y	6.89	6.91	4.49	(0.03)
10Y	7.19	7.13	4.69	0.05
11Y	7.28	7.36	4.71	(0.08)
20Y	7.33	7.29	5.07	0.04
20Y*	7.33	7.29	5.07	0.04
USDPHP	57.970	58.780	52.580	(0.81)

Source: Bloomberg

Philippine Equities

- The local equity bourse closed higher for a second week straight last Friday, gaining 169.87 points (+2.84%) week-on-week to close at 6,153.43 amid improving risk sentiment. Clear communication from the BSP that it would match the Fed's next move, be it 50 or 75bps, lent support to the market which also began to focus on what appears to be a promising 3Q reporting season. Major banks BDO and BPI reported 3Q ahead of consensus expectations, as did retailer WLCN while MER was in line with Street forecasts. Add to this the recovery in the Peso, which closed just below Php58/USD last week, and it became an opportune time to take profit by the weekend. Investors preferred to close positions ahead of the short trading week with plenty of results due out and the all-important October inflation print (Est 7.2%).
- 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. For this week, investors will be looking to SCC, TEL, AP and AEV for evidence of sustained earnings recovery to justify any further rally. Also, the Peso will continue to remain in the spotlight, especially in relation to further Fed/BSP rhetoric and the October domestic inflation outcome.

USD fixed income

- US Treasury curve bear flattened on speculations that the Fed will slow down the pace of hikes after this week's FOMC. Nonetheless, market is pricing in policy rate peak at 5%, and 10Y yield continues to trade above 4%.

PHP fixed income

- GS curve steepened after the 13Y auction was awarded at an average of 7.887%. However, we saw yields in the long-end rally towards the end of the week, following the bullish move in US Treasuries. USD/PHP closed the week at 57.97 amid dollar weakness and weak corporate demand.

Outlook for the week

Stock market

- The PSEi gained for the second week and closed above the 6k psychological resistance level. Corporate earnings releases and inflation print this coming week will influence investor sentiment. US markets have been showing strength in recent days, with SPX now trading above 50d MA and about to breach the 100d MA. Favorable earnings releases and further PHP appreciation may buoy the local bourse. Next resistance is at 6,300 (50d MA) while support is at 6,000.

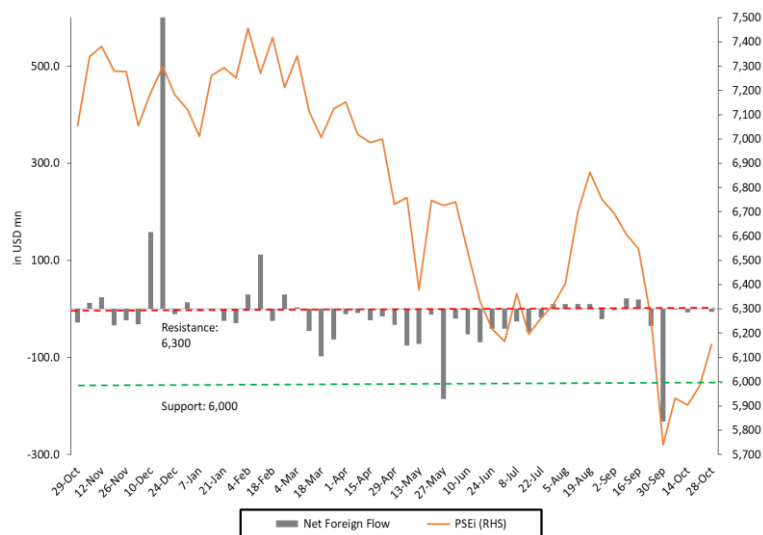
USD fixed income

- All eyes on Powell in this week's FOMC meeting as market players seek further clarity on policy outlook. The 10Y yield is currently holding the 4% level, and moves for the rest of the week will be influenced by the FOMC and employment data coming out this Friday.

PHP fixed income

- Bond yields will likely trade sideways as market players stay defensive ahead of the FOMC meeting and October CPI release on Friday.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Financials (+4.73%), Industrials (+3.93%), Conglomerates (-3.25%), Services (+3.16%), Property (-1.37%), Mining and Oil (-8.27%)

Leaders: TEL (+9.66%), URC (+9.12%), BDO (+7.34%), BLOOM (+6.87%), WLCN(+6.53%)

Laggards: SMC (-1.13%), SMPH (-1.56%), ALI (-1.73%), RLC (-2.37%), DMC (-9.27%)

Source: Bloomberg, The Philippine Stock Exchange