

# US Fed signals smaller hikes, but ultimately higher rate

## 7 November 2022

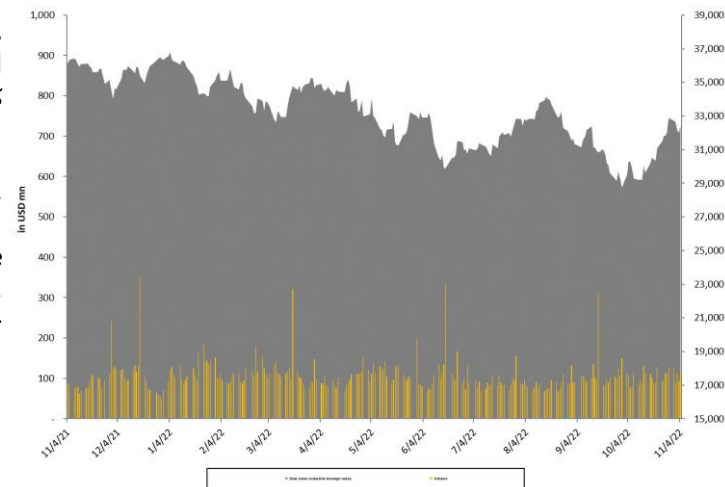
- Earnings season and rate outlook drove equity market performance last week, shortened trading week for the local market
- Fixed income markets continue to take its queue from US Fed moves and statements
- No abatement in US Fed hawkishness, smaller hike expected moving forward but terminal rate seen to be higher

**US market battered on Fed hawkishness. EU markets benefiting from a low base set in the prior week.**

- US equity markets fell for four-straight sessions before recovering slightly on Friday last week. The performance was primarily driven by another 75bps rate hike, while some names outperformed due to better-than-expected earnings results. The Dow Jones, S&P and Nasdaq were -1.40, -3.35% -5.65% week-on-week, respectively, while volatility was -4.66% for the week.
- EU equity markets rallied off of lows at the start of last week, but with gains tempered by midweek due to the revised rate-hike outlook. Real estate, automotive, and tech sectors continue to feel selling pressure while some names were influenced by earnings results and revised guidance. The FTSE, STOXX 600, CAC and DAX were +4.07%, +1.51%, +2.29% +1.63% week-over-week last week, respectively.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

**Higher benchmark rates to come. Upcoming US midterm elections, North Korean missiles, and Russia-Ukraine conflict drive news.**

- The US Fed delivered another 75bps rate hike last Wednesday with guidance pointing to smaller hikes moving forward but an ultimately higher benchmark rate than previously expected. Chairman Powell believes that inflation is still too high and that “we still have some ways to go”. Indeed, the US labor market has started to cool but not to a material degree with jobless claims still at a historically low level of 217K and even improving from the prior week’s 218K. The labor stats, released after the US Fed hike, reinforce the view that the US economy is “overheated”.
- The US is set to hold its midterm elections this coming Tuesday, with the potential for Republicans to take the House and Senate if things go their way. In other global news, North Korea launched missiles and artillery shells last week as it condemned the extension of US-South Korea military drills. The Russia-Ukraine conflict has also continued, with Ukraine delivering fresh accusations that Iran has been supplying Russia with drones and other military hardware.

Source: JP Morgan

Interest rates				
USD	04-Nov-22	28-Oct-22	31-Dec-21	+/-
UST 2Y	4.66	4.41	0.73	0.24
UST 5Y	4.33	4.18	1.26	0.15
UST 10Y	4.16	4.01	1.51	0.15
UST 20Y	4.50	4.39	1.93	0.10
UST 30Y	4.25	4.14	1.90	0.10
ROP 3Y	5.52	5.48	0.91	0.04
ROP 4Y	5.44	5.26	0.98	0.19
ROP 9Y	5.44	5.29	2.02	0.15
ROP 10Y	5.42	5.27	2.00	0.15
ROP 24Y	5.85	5.69	2.94	0.17
PHP	04-Nov-22	28-Oct-22	31-Dec-21	+/-
2Y	5.50	5.07	3.09	0.44
3Y	5.53	5.62	2.59	(0.09)
4Y	6.56	6.49	4.04	0.07
5Y	7.51	7.28	4.71	0.23
7Y	6.95	6.89	4.49	0.06
10Y	7.53	7.19	4.69	0.35
11Y	7.51	7.28	4.71	0.23
20Y	7.56	7.33	5.07	0.23
20Y*	7.56	7.33	5.07	0.23
USDPHP	58.550	57.970	52.580	0.58

Source: Bloomberg

## Philippine Equities

- The PSEi was up slightly last week by 0.52% to 6,185.53 amidst a shortened trading week. The performance was despite higher-than-expected inflation reported for October 2022 and rising agricultural damages caused by Typhoon Paeng. The ongoing 9M22 earnings season is also starting to influence the market with 10 index names already reporting results.
- Earnings season is looking good thus far with 7 names coming in-line or beating house estimates and with all 10 meeting or beating street. Most of the outperformance vs consensus estimates appears to be coming from the banking sector with all 3 names ahead of street and with no misses vs house. Power & utilities has so far been a mixed bag when it comes to house forecasts and is the main source of misses thus far at 2.20 more index names are expected to report through to November 15.
- On the macro front, October inflation came in at 7.7% - accelerating from September's 6.9% and higher vs median street estimate of 7.1%. The print brings ytd inflation to 5.4% and continues to breach the government's 2%-4% target. The BSP has stated that intends to match the US Fed's 75bps hike in its upcoming meeting on November 17.

## USD fixed income

- US Treasury yields rose across the curve after a hawkish FOMC and strong employment data. Overall policy outlook remains hawkish as Powell emphasized the need to approach a higher terminal rate based on recent economic data. Market is currently pricing in policy rate to peak at 5.10% within 1H2023.

## PHP fixed income

- Bond yields rose 5 to 8 bps across the curve following a hawkish FOMC and upside surprise in October headline CPI which came in at 7.7%. In a statement, BSP Governor Medalla mentioned that they will match the Fed's 75 bp rate hike in the Monetary Board meeting on November 17.

## Outlook for the week

### Stock market

- The PSEi is now trading closer to its moving averages (50-day and 100-day) after the bounce from recent lows around 5,800. The local market will continue to be guided by earnings results, most are currently better-than-expected so far, and the movement in USDPHP pair. The high inflation print for October might put pressure in the market especially if the high print persists. Trading range for the PSEi may hover around 6,000 to 6,350.

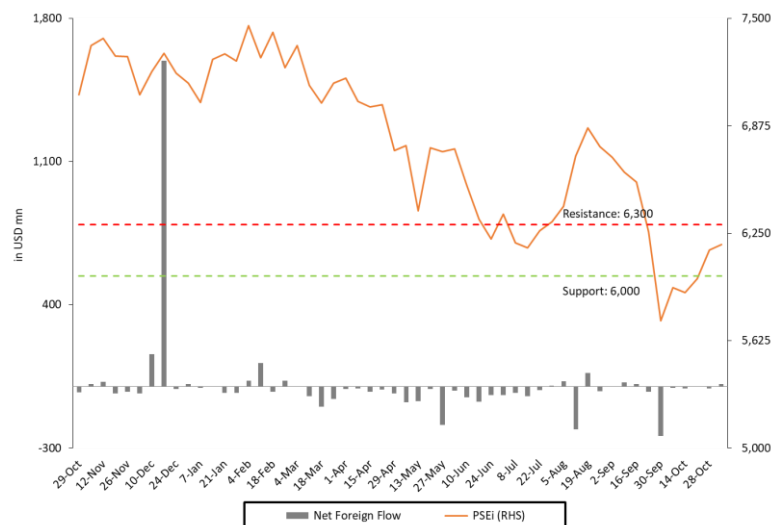
### USD fixed income

- For the week, key data release will be the US CPI print for October. A print above 8% YoY could spur another round of sell-off in US Treasuries and risk assets as markets price in a higher terminal rate.

### PHP fixed income

- Upside pressure to bond yields remain as market players stay defensive amid the current macro environment.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

**Sectors:** Mining and Oil +1.49%, Property +1.20%, Financials +0.94%, Services +0.90%, Industrials +0.23%, Holding Firms +0.11%

**Leaders:** LTG +5.33%, URC +3.77%, SMC +2.91%, MER +2.85%, ICT +2.77%

**Laggards:** AC -6.15%, CNVRG -2.44%, SCC -2.29%, ACEN -2.08%, JFC -1.64%

Source: Bloomberg, The Philippine Stock Exchange