Sun Life Investment Management

WEEKLY NOTE

*Bright Morning!*

# Fed rhetoric still hawkish, but tempered, cuts short rallies

# 21 November 2022

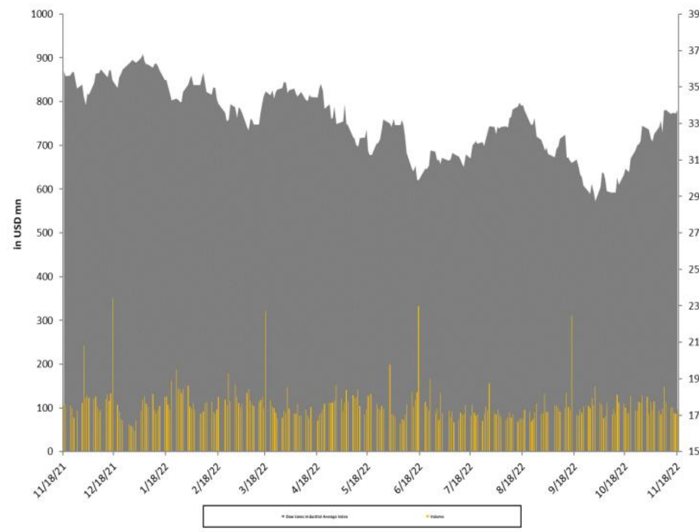
- US markets correct mid-week as US macro show more tightening needed. China re-opening lifts EU while good 3Q results and GDP lift PH bourse
- USTs bear-flattened last week on more hawkish Fed rhetoric, which also cut short a domestic PH bond relief rally amid profit-taking.
- Though US 3Q PPI growth tracks CPI lower, resilient US spending show Fed "pause" isn't imminent, still a long way to where Fed may consider it.

## US, EU equities diverge on China re-opening, timing of Fed "pause"

- US equity bourses traded sideways with a slight downward bias last week as they tried to prolong the previous week's rally off of softer-than-expected October US inflation, only to correct mid-week on resilient US retail sales causing the Fed to rule out any "pause" in the short term. US bourses rallied last, last week into the middle of last week on expectations the Fed may ease a bit on its hawkish stance. Softer-than-expected US PPI data, consistent with October CPI, supported this argument. However, strong current quarter retail sales from names like Wall Mart and Home Depot, along with gloomy future sales outlook from Target pointing to recession led investors to believe more tightening is necessary and recession is on the way. Official Fed rhetoric ruling out an immediate pause and some governors guiding 5.25-5.5% as a pre-requisite to ease slightly caused US bourses to correct throughout the balance of last week. The Dow Jones, S&P 500 and Nasdaq were down -0.01%, -0.69% and -1.57%, respectively, while the VIX rose 2.66% week-on-week.
- EU equity bourses traded sideways with a slight upward bias, sustaining last, last week's rally a bit longer. European markets rallied on news of the soft US October print and partial easing of Chinese Covid curbs. Most EU bourses started last week on strong footing as Chinese re-opening boded well for luxury names in the CAC and the DAX entered a bull market. The Stoxx 600 rallied on personal care, retail and tech sector out-performance. This carried on up to mid-week, partly on the soft US PPI figure, with only the UK seen lagging behind on high unemployment data. This, coupled with UK inflation hitting a 41 year high, reportedly, and the chance of escalation after a Russia-made missile killed 2 after landing in NATO-member Poland, caused EU bourses to fall. They recovered late last week, however, brushing off news of higher UK taxes for the wealthy and as the ECB was said to be easing further hikes to a half-point. The FTSE, DAX, CAC and STOXX 600 were up 0.92%, 1.46%, 0.76% and 0.25%, respectively, week-on-week..

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index




Source: Bloomberg

| Interest rates | | | | |
|---|---|---|---|---|
| **USD** | **18-Nov-22** | **11-Nov-22** | **31-Dec-21** | **+/-** |
| UST 2Y | 4.53 | 4.33 | 0.73 | 0.20 |
| UST 5Y | 4.01 | 3.94 | 1.26 | 0.07 |
| UST 10Y | 3.83 | 3.81 | 1.51 | 0.02 |
| UST 20Y | 4.15 | 4.23 | 1.93 | (0.08) |
| UST 30Y | 3.93 | 4.02 | 1.90 | (0.09) |
| ROP 3Y | 4.96 | 5.47 | 0.91 | (0.51) |
| ROP 4Y | 4.88 | 5.22 | 0.98 | (0.34) |
| ROP 9Y | 4.88 | 5.36 | 2.02 | (0.48) |
| ROP 10Y | 4.84 | 5.39 | 2.00 | (0.55) |
| ROP 24Y | 5.31 | 5.80 | 2.94 | (0.50) |
| **PHP** | **18-Nov-22** | **11-Nov-22** | **31-Dec-21** | **+/-** |
| **2Y** | 5.83 | 5.76 | 3.09 | 0.08 |
| **3Y** | 5.66 | 5.65 | 2.59 | 0.01 |
| **4Y** | 6.57 | 6.72 | 4.04 | (0.15) |
| **5Y** | 7.37 | 7.52 | 4.71 | (0.15) |
| **7Y** | 6.93 | 6.86 | 4.49 | 0.07 |
| **10Y** | 7.22 | 7.36 | 4.69 | (0.14) |
| 11Y | 7.37 | 7.52 | 4.71 | (0.15) |
| **20Y** | 7.88 | 7.70 | 5.07 | 0.17 |
| **20Y*** | 7.88 | 7.70 | 5.07 | 0.17 |
| **USDPHP** | **57.260** | **57.230** | **52.580** | 0.03 |

Source: Bloomberg

## No imminent Fed "pause", but smaller steps towards ~5% goal post

- Several Fed officials opined last week on the appropriate direction it should take with regard to monetary policy. Most agree, though, that the pace of hikes would slow in the near future but a "pause" is not yet on the table. Some gave a range of between 4.75-5.25, others 5-5.25% for the steady state rate level that's "sufficiently restrictive" and at which point a pause may be considered. Incremental hikes from here on out should be in the 50bps neighborhood, they said. Elsewhere, parts of the US economy is showing resilience to high rates and inflation with US October retail sales up 1.3% while others show signs that tightening is working. US October produce price growth decelerated to 8%, missing expectations, while overall industrial production fell 0.1%.

Source: JP Morgan

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## Philippine Equities

- The local equity bourse extended its winning streak to five weeks closing 150.61 points higher (+2.4%) week-on-week to close Friday's trading at the 6,437 level. Positive 3Q earnings results (around 63% of index names were in-line or ahead of SLIMTC expectations and 73% vs. consensus expectations), positive surprise on domestic 3Q GDP (7.6% y/y vs. consensus of 6.1%) and hints of easing US inflation led to the return of global and local risk-on sentiment. Moreover, positive macro and industry developments such as strong OFW remittance and vehicle sales growth were likewise taken positively and led to bargain-hunting on battered equity names while net foreign buying also returned to our market. The BSP matched the Fed's aggressive 75bps hike, but was largely priced in already.
- For this week, the market will likely take its cue from foreign developments given 3Q earnings reporting season has largely ended and the big Fed and BSP hikes are now past. A close eye will be kept on persistence of net foreign buying into the market and whether the Peso can gain further ground vs. the greenback. Also, there is some MSCI re-balancing activity involving CNVRG, GTCAP and MPI.

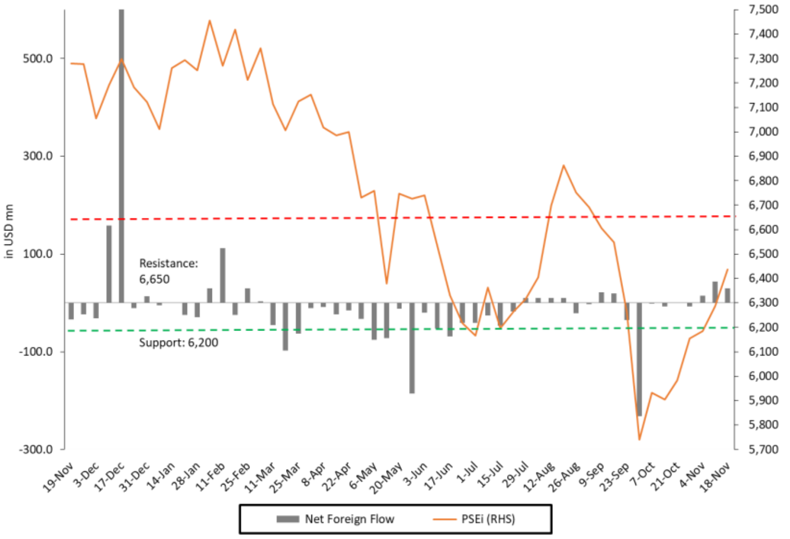
## USD fixed income

- UST curve bear flattened over the week after a series of hawkish statements from Fed officials. Notably, Bullard mentioned that he sees a need to raise rates to a "sufficiently restrictive zone" of 5% to 7%. At the moment, market is pricing in peak terminal rate of 5% in 2023.

## PHP fixed income

- Belly to long-end of the curve rallied after a relatively strong FXTN 25-6 auction. However, the rally proved to be short-lived after hawkish guidance from the BSP and the Fed led to a round of profit-taking. As expected, the BSP delivered a 75 bp rate hike last week.

Chart 2 - Philippine Stock Exchange Index




Source: Sun Life Financial Philippines

**Sectors:** Industrials (+4.06%), Services (+3.14%), Conglomerates (+2.51%), Property (+2.27%), Mining and Oil (+1.93%), Financials (+0.17%)
**Leaders:** CNVRG (+20%), ACEN (+10.76%), ALI (+10.41%), MEG (+9.71%), GTCAP (+8.79%)
**Laggards:** GLO (-3.74%), BDO (-3.37%), SMPH (-2.86%), EMP (-2.67%), ALI (-1.41%)
Source: Bloomberg, The Philippine Stock Exchange

## Outlook for the week

## Stock market

- The PSEi gained for the fifth straight week, ending above the 6400 level, as foreign investor interest in the local bourse continued. With an appreciating PHP and peaking inflation, we might see the index testing its next resistance of 6,630 (200d MA) in the coming weeks. Investors may also be encouraged by the good 9M22 earnings results which may lead to earnings upgrades for some names.

## USD fixed income

- UST yields will likely continue to trade sideways ahead of key macro data prints scheduled in December. Range for 10Y yield is 3.70% to 3.90%.

## PHP fixed income

- Bond yields will likely trade sideways ahead of the 20Y auction and release of December auction schedule. Market players to remain defensive amid Inflation and supply concerns..