

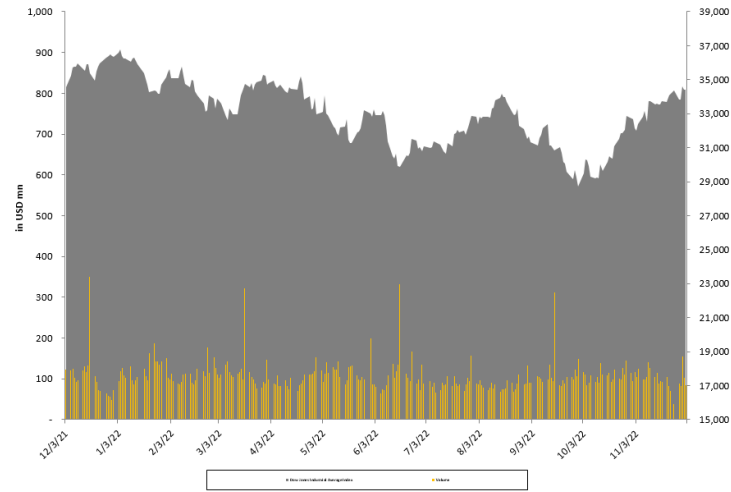
Equity markets fall to new lows amid global fear

5 December 2022

- Equity markets in the US and the EU were relatively positive despite strong labor numbers while PHequities fell amid profit-taking.
- The Fed turns less hawkish which led the 10Y yield to drop to 3.5% while BSP Gov turned less hawkish as well amid coming December meeting.
- US Job numbers were better-than-expected, igniting some fear of continued hawkishness; OPEC+ decides to stick to its existing oil production policy.

US & EU markets end positive despite fears that macro data could fuel further hawkish behavior from Fed.

Chart 1 - Dow Jones Industrial Index



- US equities ended up after a relatively choppy week as investors looked ahead to the upcoming Fed meeting, shrugging off hotter-than-expected labor numbers. Despite earlier losses in the week, major US indices were up for the week, with the Dow Jones, S&P 500, and the Nasdaq up 0.45%, 1.66% and 2.82% week-on-week respectively.
- EU markets eased on Friday, trimming the longest weekly gaining streak since April 2021, as hotter-than-expected US job fueled fears of tighter Fed policy. Nonetheless, indices like the STOXX 600 continued their upward trend and put in their 7th week of gains. The FTSE, STOXX 600, CAC and DAX were +0.93%, +0.85%, +0.96%, and +0.40% week-on-week.

Source: JP Morgan, WSJ

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

Source: Bloomberg

- November Job figures were better than expected despite the Fed's efforts to slow the labor market and bring down inflation. Nonfarm payrolls increased 263,000 while the unemployment rate was at 3.7%. The unemployment rate was on-expectation, but NFPs were 31% above expectations of 200,000. Average hourly earnings jumped 0.6% for the month while wages were up 5.1% YoY, well above economists' 4.6% expectation. Leisure and hospitality led the job gains, adding 88,000 positions, while other expansionary sectors include healthcare (45,000 positions), government (42,000), and personal services (24,000). Conversely, retail establishments reported 30,000 less positions heading into what is expected to be a busy holiday shopping season. The strong job numbers come amid continued Fed tightening to cool down the labor market, raising rates half a dozen times this year already.
- OPEC+ decided to stick to its existing policy of reducing oil production by 2 million barrels per day (2% of world demand) from November until end-FY23. Analysts had initially expected OPEC+ to consider fresh price-supporting production cuts ahead of the Russian crude ban to the EU and price caps on Russian oil from G-7 members. The Kremlin previously warned that any attempt to impose a price cap on Russian oil will cause more harm than good.

Source: JP Morgan, WSJ, CNBC

Interest rates				
USD	02-Dec-22	25-Nov-22	31-Dec-21	+/-
UST 2Y	4.27	4.45	0.73	(0.18)
UST 5Y	3.65	3.86	1.26	(0.21)
UST 10Y	3.49	3.68	1.51	(0.19)
UST 20Y	3.76	3.95	1.93	(0.19)
UST 30Y	3.55	3.73	1.90	(0.18)
ROP 3Y	4.69	4.88	0.91	(0.19)
ROP 4Y	4.44	4.65	0.98	(0.21)
ROP 9Y	4.40	4.67	2.02	(0.26)
ROP 10Y	4.34	4.65	2.00	(0.30)
ROP 24Y	4.73	4.99	2.94	(0.26)
PHP	02-Dec-22	25-Nov-22	31-Dec-21	+/-
2Y	5.92	6.14	3.09	(0.22)
3Y	5.66	5.78	2.59	(0.12)
4Y	6.42	6.43	4.04	(0.02)
5Y	6.97	7.03	4.71	(0.06)
7Y	6.65	6.71	4.49	(0.05)
10Y	7.03	7.16	4.69	(0.13)
11Y	6.97	7.03	4.71	(0.06)
20Y	7.68	7.82	5.07	(0.14)
20Y*	7.68	7.82	5.07	(0.14)
USDPHP	55.740	56.670	52.580	(0.93)

Source: Bloomberg

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Philippine Equities

- The PSEi was down -1.78% WoW and closed at 6,489.65, ending its 6 week consecutive rally. Recent outperformers led the decline as the market took profits last week. Despite negative equity moves, the Peso continued to gain, hitting levels not seen since August 2021.
- The DoH logged 1,173 new COVID-19 cases to end the week, bringing the nationwide tally to 4,041,023. This is the 4th straight day that over 1,000 new COVID cases were logged in the PH. Active cases were at 18,256. Cases were concentrated in the NCR with 4,824, followed by Calabarzon with 2,009, and Central Luzon with 1,025, DOH also said that bed occupancy in the country was 23.5% with 6,618 beds occupied.
- On the macro front, the PH's national budget deficit grew to PHP99.1Bn in October as strong state spending outpaced revenue collections. The Bureau of Treasury reported that the October budget gap rose by 54.08%. Meanwhile, the DoF said that by 2028, PH's debt-to-GDP should ease to around 50% assuming the economy sustains its current growth trajectory. Inflation is expected by the BSP to settle within the range of 7.4% to 8.2% due to elevated energy and agricultural costs. The BSP said that it may pause interest rate hikes in 1Q23 if there are no major shocks to the outlook.

USD fixed income

- In a statement last week, Fed Chair Powell indicated that the central bank is looking to slow the pace of hikes as soon as their December meeting. His remarks were deemed to be less hawkish than his previous statements, and supportive of the recent rally across asset classes. The 10Y yield dropped to 3.50% after Powell's statements and gains were sustained until the close of the week despite stronger-than-expected employment data.

PHP fixed income

- GS curve continue to bull flatten as end-user demand remains strong across the curve. Last Friday, BSP Governor Medalla mentioned that the Board will likely be split between hiking rates by 25 bps or 50 bps for their December meeting. A less hawkish BSP will continue to support bonds for the remainder of the year.

Outlook for the week

Stock market

- Near-term, the index may continue its profit taking after the steep rally towards the 6,800 level, the peak of August 2022. The long black candles in the past two days could mark the start of this correction wave before another round of base building

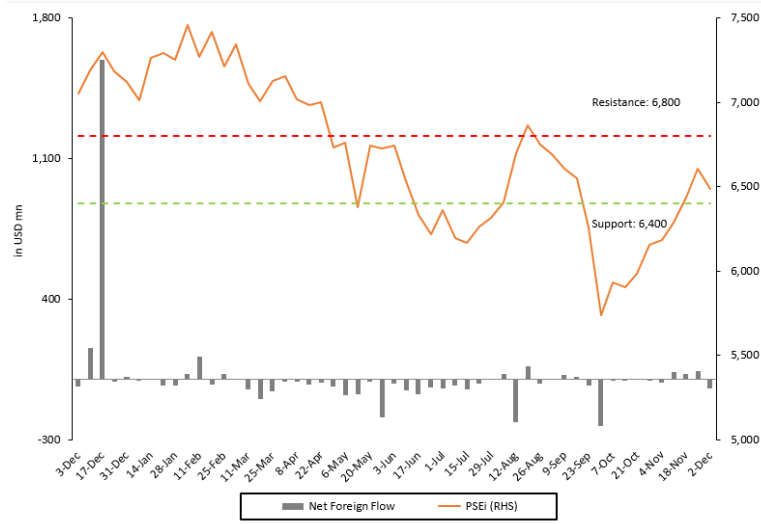
USD fixed income

- US Treasuries will likely trade sideways within the week ahead of the CPI data and FOMC meeting next week. Bonds are now pricing in a peak Fed Funds rate of 4.94%.

PHP fixed income

- A less aggressive December auction schedule and less hawkish BSP should bode well for the local bond market. However, upside risks to inflation remain and investors will look for signs of peak inflation in the November CPI data due tomorrow.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining/Oil +5.62%, Services -0/03%, Holding -0.85%, Industrial -2.17%, Financial -2.75%, Property -3.27%

Leaders: SCC +7.18%, ACEN +4.40%, ICT +4.14%, EMI +2.93%, JGS +2.39%

Laggards: WLCON -7.38%, CNVRG -6.13%, JFC -5.95%, MONDE -5.56%, SMPH -5.29%

Source: Bloomberg, The Philippine Stock Exchange