

Philippine stock and bond markets outperform US, EU peers

12 December 2022

- US and EU equity bourses were down last week as resilience of US economy may force higher and longer Fed tightening. PH bucks the trend
- UST curve shifted up in reaction to US economic resilience. PH bonds bucked the trend in that there was less supply risk and more liquidity.
- The Fed and market signals consistently point to hefty short-term hikes through early 2023 but then diverge with some expecting a fall in 2H23.

US, EU equities fall on resilience of US economy, more tightening

- US equity bourses closed the week lower as a late recovery rally failed to offset several days of back-to-back losses up through to the middle of last week. The week previous to last saw significant equity market losses as the better-than-expected labor print fueled concerns that the Fed may prolong its hiking cycle beyond current expectations until it successfully induces a recession. Concerns about extended Fed hawkishness and a growth downturn intensified through to mid-week, racking up five consecutive days of losses. By Thursday, a brief relief rally took place as investors began to second-guess their pessimism and rethink the expected severity of the imminent recession. However, it seems market action confirmed their worst suspicions by the weekend and US bourses fell once again Friday. The Dow Jones, S&P and Nasdaq were down -2.77%, -3.37% and -3.99% week-on-week, respectively, while volatility (VIX) rose 19.8%.
- EU equity bourses began last week on firm footing as China's easing of Covid restrictions initially benefited certain sectors like Mining. However, the stronger-than-expected US labor print also led to concerns that the Fed may hike rates by more and for longer than previously thought to cool inflation. It didn't help that US November producer prices rose higher than expected. European bourses likewise gave way to recession fears into midweek and tracked Wall Street lower save for a late relief rally last week as investors reconsidered the degree of their bearishness. The FTSE, DAX, CAC and STOXX were down -1.05%, -1.09%, -0.96% and -0.94%, week-on-week, respectively.

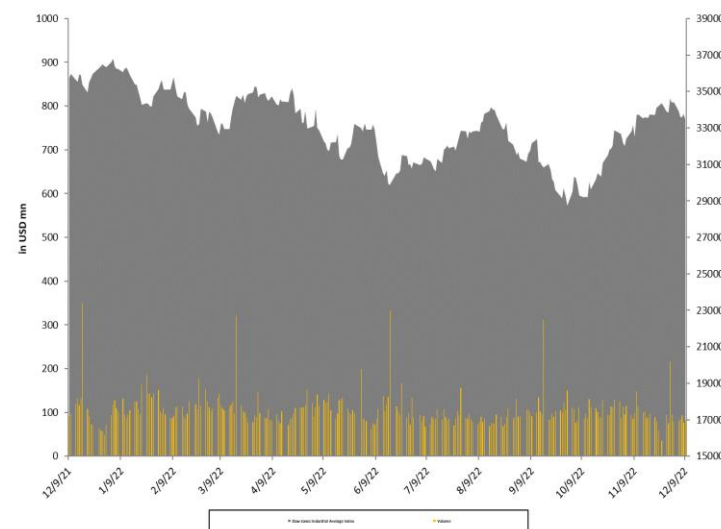
Source: JP Morgan

Hawkish Fed and market views consistent only up to mid-2023

- By late last week, news flow suggested that expectations about Fed tightening are uniform for the short term (December into early 2023), but now diverge for the latter part of next year. Fed rhetoric and market signals are consistent with a half-point increase this month (2022's last) and early 2023, but investors are seeing a rapid decline by late 2023 as they expect the intended impact on inflation to be achieved presumably quickly and that growth, particularly employment, will shortly overtake inflation as the top priority at some point in 2023. Meanwhile, there are still mixed macro signals on the US front with both new and continuing US unemployment claims rising, energy commodities falling, haven assets like Gold rising, but also industrial production continuing to increase (Nov ISM up to 56.5 from 54.4), same with factory orders and 4th quarter US GDP growth predictions.

Source: JP Morgan

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	09-Dec-22	02-Dec-22	31-Dec-21	+/-
UST 2Y	4.34	4.27	0.73	0.07
UST 5Y	3.77	3.65	1.26	0.12
UST 10Y	3.58	3.49	1.51	0.09
UST 20Y	3.81	3.76	1.93	0.04
UST 30Y	3.56	3.55	1.90	0.01
ROP 3Y	4.84	4.69	0.91	0.15
ROP 4Y	4.43	4.44	0.98	(0.01)
ROP 9Y	4.42	4.40	2.02	0.02
ROP 10Y	4.39	4.34	2.00	0.05
ROP 24Y	4.80	4.73	2.94	0.07
PHP	09-Dec-22	02-Dec-22	31-Dec-21	+/-
2Y	5.90	5.92	3.09	(0.02)
3Y	5.68	5.66	2.59	0.02
4Y	6.33	6.42	4.04	(0.09)
5Y	6.72	6.97	4.71	(0.25)
7Y	6.60	6.65	4.49	(0.05)
10Y	6.99	7.03	4.69	(0.03)
11Y	6.72	6.97	4.71	(0.25)
20Y	7.25	7.68	5.07	(0.43)
20Y*	7.25	7.68	5.07	(0.43)
USD/PHP	55.370	55.740	52.580	(0.37)

Source: Bloomberg

Philippine Equities

- The local equity bourse gained ground during the previous, shortened trading week, climbing 1.39% WoW to close at 6,580.12 as the PSEi trended up save for a mid-week dip as investors reduced risk ahead of the religious holiday, Thursday. Despite domestic November inflation of 8% coming in above consensus expectations, investors took their cue from improving sentiment on global risk assets as returned from break last Friday. Also, inflation in NCR was slightly lower, driven by tempering food prices.
- For this week, investors will wait to see if net foreign inflows will return and if the Peso can recover further relative to the greenback. Also, we expect MSCI rebalancing names like CNVRG, GTCAP, and MPI to be monitored. Given the broad outperformance of listed names during 3Q/9M reporting season, investors will be looking out for earnings upgrades.

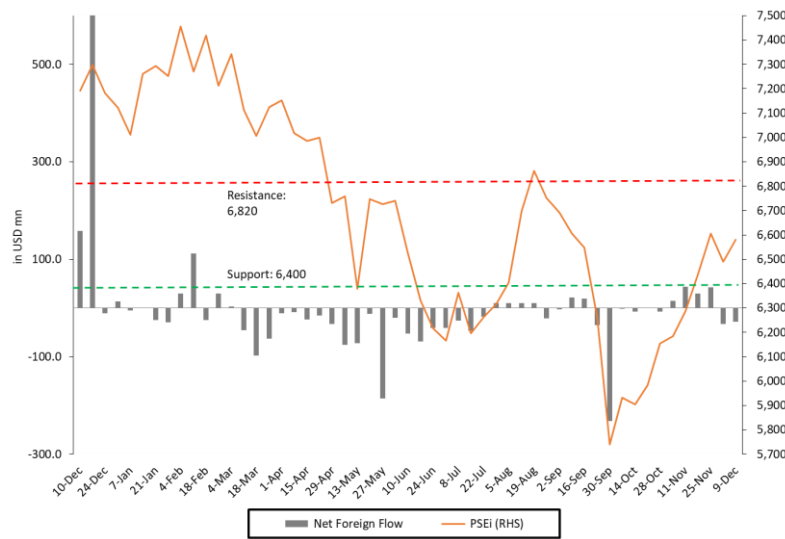
USD fixed income

- US Treasury curve shifted higher as investors react to a series of strong economic data that underscore the fact that both the economy and consumer demand remain resilient. 10Y yield rose ~10 bps to 3.578%.

PHP fixed income

- GS curve bull flattened as market players picked up duration amid absence of supply pressure for the remainder of December, and fresh liquidity from maturity of R5-11.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Services (+2.66%), Conglomerates (+1.72%), Mining (+1.66%), Property (+1.19%), Financials (+0.17%), Industrial (-0.35%)

Leaders: TEL (+6.79%), WLCON (+5.65%), ICT (+4.91%), CNVRG (+4.58%), URC (+4.51%)

Laggards: MONDE (-5.55%), GLO (-5.26%), AEV (-2%), MER (-1.75%), ACEN (-1.49%)

Source: Bloomberg, The Philippine Stock Exchange

Outlook for the week

Stock market

- Looking ahead, the PSEi could retest the 6,800 level if foreign buy flows continue, favoring heavyweight names like SMPH, SM, AC, and ALI. We are also seeing relative strength in names like WLCON, URC, BPI and JFC which are all trading above 50 MA despite the recent profit taking. We expect an upward bias in this week's trading as domestic equities are still trading at good valuations and as we look into a probable Santa Clause rally towards the end of 2022.

USD fixed income

- For US rates this week, market attention will focus on the November CPI report to be released Tuesday night and the final FOMC meeting of the year with updated economic projections of the Fed due.

PHP fixed income

- BSP MB meeting is scheduled on Dec 15. Market will likely take cues from developments in the US and watch for changes in BSP's rhetoric.