

Markets trade sideways on thin volume last holiday week

3 January 2023

- US and EU equity bourses end 2022 on a flat note, hardly changed week-on-week on lackluster volume and dearth of new developments.
- USTs and local bonds slightly underperformed on concerns US economy still running hot and on mounting supply risk for the latter.
- News flow was also thin on US macro, but weekly data points last week indicate Fed hikes are impacting US labor and housing markets.

US, EU equities move sideways on little volume and developments

- US equity bourses traded sideways during the uneventful last trading week of 2022. Market movement was dictated by lingering strength in discretionary retail demand for household "big box" resellers such as Target, while consumer staples and materials were down, perhaps reflecting forward expectations of an economic downturn. The weather-induced, massive cancellations of airline flights, especially for Southwest Airlines, also impacted the transportation sector, mid-week, but steadily regained ground as the week closed. The absence of a Santa Claus rally in US markets this year was perhaps a stance of caution as investors cast a wary eye on China's now-uncontained exit from lockdown and ongoing 2020-levels Covid-19 surge. The Dow Jones, S&P 500 and Nasdaq were down -0.17%, -0.14% and -0.30% year-on-year, respectively, while volatility (VIX) increased 3.83%.
- EU equity bourses likewise traded sideways during 2022's last trading week with mixed results as labor strikes in the UK led to fear of even more tightening than expected while economic indicators in some EU countries suggest that any upcoming recession would be "short and shallow" and that there's some bottoming-out in Nordic countries of the continent. The FTSE fell 0.28%, WoW, while the DAX, CAC and STOXX 600 were up 0.92%, 1.38% and 0.35%, respectively.

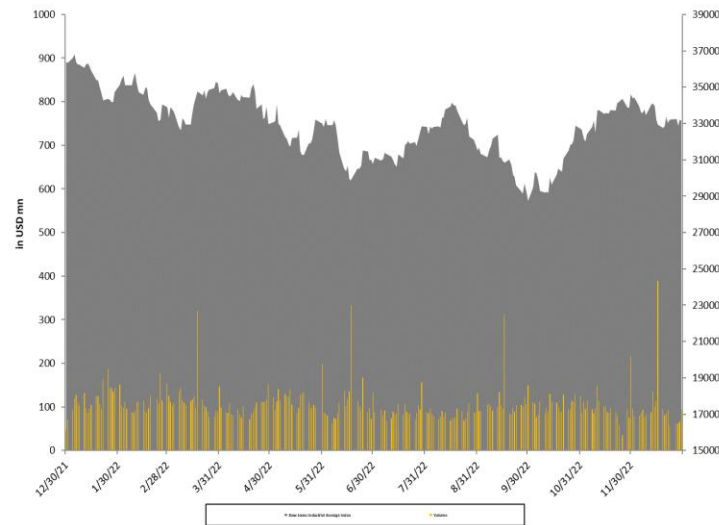
Source: T Rowe Price

Quiet week for US macro data, but they indicate Fed hikes matter

- US Macro data was scarce during the last week of 2022, but November pending home sales reportedly fell 1.2% to nearly a 20-year low, indicating the higher Fed rates are beginning to bite. October's Case-Schiller Index, which measures market prices, was likewise down by 0.8% y/y. Per the Richmond Fed, US Mid-Atlantic region manufacturing activity index turned positive for the first time in eight months as supply/logistic issues sorted themselves out, helping to ease current inflation off their highs and also forward expectations a bit lower. Meanwhile, on the labor front, weekly jobless claims edged slightly higher to 225,000 (from 215k) but still below mid-November levels of 241,000.

Source: T Rowe Price

Chart 1 - Dow Jones Industrial Index



Source: Bloomberg

Interest rates				
USD	02-Jan-23	26-Dec-22	31-Dec-21	+/-
UST 2Y	4.43	4.32	0.73	0.10
UST 5Y	4.00	3.86	1.26	0.15
UST 10Y	3.87	3.75	1.51	0.13
UST 20Y	4.14	4.00	1.93	0.14
UST 30Y	3.96	3.82	1.90	0.14
ROP 3Y	4.87	4.69	0.91	0.18
ROP 4Y	4.28	4.31	0.98	(0.03)
ROP 9Y	4.45	4.42	2.02	0.03
ROP 10Y	4.49	4.45	2.00	0.04
ROP 24Y	5.06	4.99	2.94	0.07
PHP	02-Jan-23	26-Dec-22	31-Dec-21	+/-
2Y	5.74	5.73	3.09	0.01
3Y	5.83	5.77	2.59	0.06
4Y	6.24	6.16	4.04	0.08
5Y	6.77	6.77	4.71	(0.00)
7Y	6.63	6.69	4.49	(0.06)
10Y	6.97	6.93	4.69	0.04
11Y	6.77	6.77	4.71	(0.00)
20Y	7.20	7.21	5.07	(0.01)
20Y*	7.20	7.21	5.07	(0.01)
USDPHP	55.755	55.150	52.580	0.605

Source: Bloomberg

Philippine Equities

- The local equity bourse traded sideways with a slight upward bias last week, ending the year at 6,566.39 (+0.39% WoW) on lackluster trading activity given the seasonal lull in between Christmas and New Year long weekends. The PSEi returned -7.8% y/y in 2022 largely due to numerous, exogenous headwinds throughout the year starting with the Omicron variant, the outbreak of the Ukraine war, sharp increase in global commodity prices and the ensuing global central bank response (monetary tightening, that is). Absent any meaningful local market developments, market focus remained on the PLDT over-spending issue, which was compounded by several potential legal cases filed against the company in the US, where it's publicly traded. The company maintains its claim of no fraud and that its forensic investigation is still ongoing. Areas of strength were seen in the mining sector where China's mismanaged exit from hard lockdown benefited certain metals prices.
- For this week, December domestic inflation is due out with Street expecting it to print higher (~8.3%) than November's 8% y/y. November trade data/balance is due out and so is December FX reserve levels. US macro-data due out next week includes December non-farm payrolls which Street expects to fall to 166,000 from 221,000 the prior month.

USD fixed income

- US Treasury curve bear steepened over the last week of 2022. News of China's re-opening contributed to inflation concerns, while data in the U.S. show no signs of economic slowdown. 10Y yield closed the year at 3.87%.

PHP fixed income

- Local bond yields ended the week mostly higher, tracking the move in US Treasuries. Imminent supply risks kept market players in a defensive position towards year-end.

Outlook for the week

Stock market

- PSEi may continue to trade on thin volume as investors come back from the Holiday break. Though PSEi is still above the 200d MA of 6,529, Dec inflation data will influence market sentiment in the coming week. Next support is 6400 (100d MA).

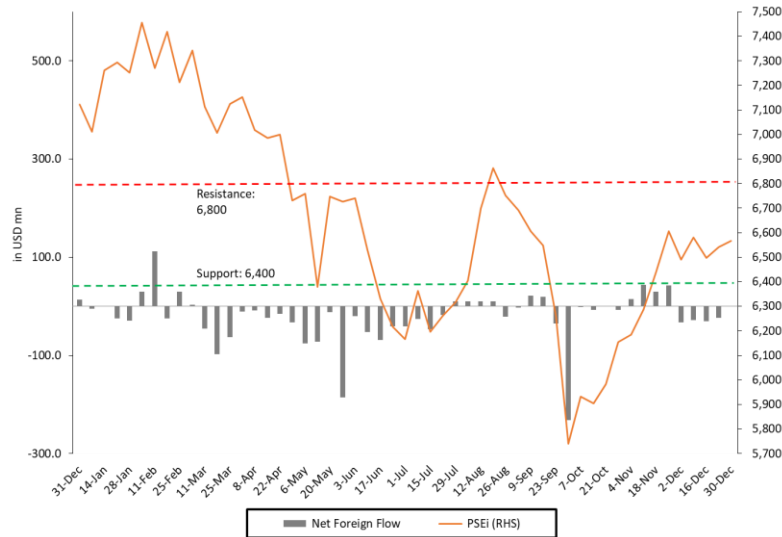
USD fixed income

- Key data for the week will be the December payrolls report. A tight labor market will continue to be bearish for bonds. Updated range for 10Y yield is 3.70% to 4%.

PHP fixed income

- December CPI print will be released on Thursday with consensus estimate at 8.3%. This is higher than previous print of 8%, and economists forecast that this will be the peak of local inflation already.

Chart 2 - Philippine Stock Exchange Index



Source: Sun Life Financial Philippines

Sectors: Mining (+2.36%), Property (+1.82%), Services (+1.74%), Banks (+0.26%), Industrial (-0.10%), Conglomerates (-0.16%)

Leaders: CNVRG (+14.08%), TEL (+7.07%), ALI (+5.48%), MER (+5.36%), PGOLD (+2.95%)

Laggards: MONDE (-5.3%), MEG (-5.21%), ICT (-1.96%), MBT (-1.73%), SM (-1.53%)

Source: Bloomberg, The Philippine Stock Exchange