

# Strongest GDP Growth in 40 years but risks abound

## Previous Week Summary

### Equity markets rally on US GDP upside surprise and decent earnings

Technology megacaps drove a stock market rebound with the S&P 500 closing at its highest since early December. The S&P 500 gained 2.48% while the Nasdaq rallied 4.32% for the week as better than expected US GDP results and decent earnings pointed to an increased probability of a soft landing. All other DMs ended positively with the Topix and Stoxx Europe 600 rising 2.76% and 0.91% respectively. Volumes in Asian markets were muted as Chinese/HK markets were closed for the Chinese New Year. Nonetheless, the MSCI Asia Pacific Index edged higher by 1.57% on continued positive sentiment on China reopening.

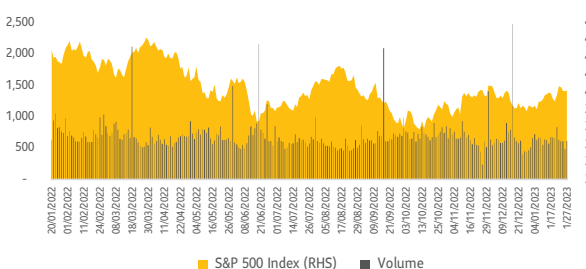
### US Treasury yield curve bear steepened ahead of FOMC, while local GS yield curve shifted lower anew

During the week, strong economic data and in-line core PCE reading contributed to the bear steepening of the US Treasury yield curve. Market participants started to turn cautious and lighten positions ahead of next week's FOMC meeting. In the local market, bond yields ended the week another 5 to 15 bps lower across the curve on the back of strong demand for government securities. Overall market sentiment remains bullish after the BSP communicated that the rate hike cycle will end within the first quarter.

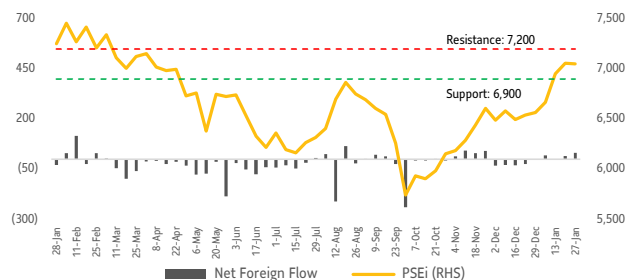
### Philippine equities sideways, awaiting fresh catalysts

The PSEi seasawed last week and appeared to have already factored-in a strong Philippine 4Q22 print. Investors are now looking towards the start of earnings season before taking more meaningful actions. The main equity bourse lost 4.46pts, down 0.06% week-on-week, to end at 7,052.16. Most sectoral indices were also down for the week, with Mining & Oil the deepest loser at -1.84% week-on-week and with Holding Firms leading advancers at +0.72% week-on-week. Foreigners were net buyers for the week at USD32.95mn, vs USD82.96mn net inflow the week prior.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

The Philippines just notched its fastest economic growth since disco music was rattling the airwaves and Gerald Ford was US president. Sustaining that pace against a gloomy global backdrop will be a challenge. The economy grew 7.6% in 2022, data showed Thursday, its best performance since 1976. President Ferdinand Marcos Jr. is betting the country can keep on expanding near 7% this year. Yet dark economic clouds loom across the globe, adding to the 14-year-high inflation and other domestic pressures, that could keep the growth rate fragile. Here are some of the factors to watch out for in the Philippines:

**CONSUMPTION** - A closer look at the data shows personal consumption grew 7% year-on-year in the three months to December, the slowest pace since a contraction in the first quarter of 2021 when the nation hadn't fully reopened. That suggests that fast inflation and the central bank's most aggressive rate tightening in two decades are beginning to clip growth. The "initial boost from pent-up demand will start to fade in the coming quarters," said Oxford Economics Ltd.'s Makoto Tsuchiya. "Elevated inflation will continue to strain real purchasing power."

**RISING COSTS** - The Philippines is still grappling with soaring food prices that crimp day-to-day budgets. Costs of onions and sugar have spiked in the past months. The policy tightening to rein in that price growth — 350 basis points and counting — would continue to bring pain and spending restraint to other parts of the economy this year. The key rate at 5.5% is the highest since 2008.

Source: <https://www.bworldonline.com/top-stories/2023/01/27/501389/risks-mount-for-philippines-after-best-growth-in-half-a-century/>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

The 10Y Treasury yield will likely trade within the 3.40% to 3.80% range. Market participants are wary of the risk that the Fed will come out hawkish in the upcoming FOMC as financial conditions have loosened. SLIMTC still sees upside risks to yields at current levels. But with inflation trending lower, sell-offs in US Treasuries offer good entry opportunities.

#### PHP FIXED INCOME

SLIMTC sees upside risks to local bond yields as market participants might choose to reduce holdings or stay on the sidelines ahead of the upcoming RTB issuance.

### Local Equities

PCOMP remains close to the 7,000 psychological level with the index trading above the 50-day, 100-day and 200-day moving average (a positive sign). The index is coming from overbought territory so a sideways or correction may be in play before we see another leg of the rally.

### Global Funds

SLIMTC lightens up on our least preferred sectors -- areas prone to multiple compression and earnings downgrades. SLIMTC also rotates towards those highly correlated to EM/Axj indices as their earnings momentum and recovery stories should entice investors and deliver outperformance for the portfolios. Chinese exposure has been upweighted to ride on positive sentiment on reopening.

## Economic Calendar

Date	Metric	Previous	Consensus Estimate
3-Feb-23	US Nonfarm Payroll (Jan)	223k	190k
3-Feb-23	US Unemployment Rate (Jan)	3.60%	3.5%
7-Feb-23	PH CPI Inflation (Jan)	8.1%	-
8-Feb-23	PH Unemployment Rate (Dec)	4.20%	-

## Our House View

### Economic Forecast (as of 16 Jan 2023)

#### Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	4.50%	3.50%	5.50%
PH GDP	5.30%	4.30%	6.40%
USDPHP	55	52	57
BSP Policy Moves	At Least 2	2	3
BSP Policy Rate	At Least 50 bps	50 bps	75 bps
Budget Deficit	-5.41%	-	-

#### US Forecasts for Year End

Metric	Midpoint	Low	High
Brent Spot Price	USD 90/bbl	USD 80/bbl	USD 100/bbl
Fed Policy Moves	2 - 3	2	3
Fed Policy Rate	50-75 bps	50 bps	75 bps
US 10Y	3.63%	3.50%	3.75%
US Recession Probability 2023	High	-	-

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