

# US Jobs Growth Continues

## Previous Week Summary

### Equity markets jump on Federal Reserve's dovish tone

Equity markets jumped, with growth names leading the way, as investors cheered the more dovish tone of the Federal Reserve last week. The S&P 500 and Euro Stoxx 600 gained 2.97% and 1.09% respectively. Other markets were not able to keep up with the Topix, CSI 300 and FTSE 100 all in the red, returning -1.09%, -1.83% and -0.86%. Sentiment was positive in the market despite disappointing earnings results from big tech and a labor market still showing strength despite the tightening path undertaken by the Fed.

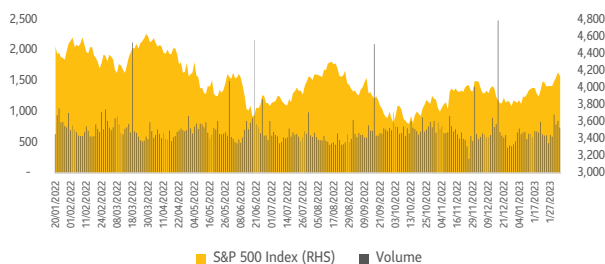
### Strong data challenge disinflation narrative, while local bond market prepares for RTB issuance

The FOMC hiked policy rates by 25 bps. While Powell reiterated that the Fed remains committed to bring inflation back to 2% target, he also acknowledged that disinflation is already in progress. US Treasuries rallied post-FOMC, but strong employment data and rebound in ISM Services Index pushed yields higher and the yield curve bear steepened over the week. In the local bond market, yields were relatively unchanged over the week as healthy two-way interest was seen ahead of the RTB offering.

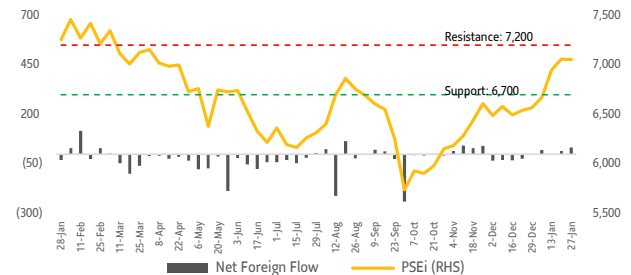
### Philippine Equities flat after a volatile week

The PSEi ended a volatile week down -0.35% to 7,027.38, just above the key 7,000 level as investors assessed the BSP's latest inflation comments, takeaways from the FOMC meeting, and an appreciating Peso. Flows were also in part driven by index rebalancing on Friday where UBP and DMC replaced RLC and MEG in the local index; as a result, volumes nearly doubled WoW to \$214m. Financials (+1.86%) and Industrials (+1.24%) were the leaders while Property (-1.88%) and Mining and Oil (-4.93%) lagged other sectors. Foreigners were net buyers worth US\$9.93M last week.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

The employment picture started off 2023 on a stunningly strong note, with nonfarm payrolls posting their biggest gain since July 2022. Nonfarm payrolls increased by 517,000 for January, above the Dow Jones estimate of 187,000 and December's gain of 260,000, according to a Labor Department report Friday.

"It was a phenomenal report," said Michelle Meyer, chief U.S. economist at the Mastercard Economics Institute. "This brings into question how we're able to see that level of job growth despite some of the other rumblings in the economy. The reality is it shows there's still a lot of pent-up demand for workers were companies have really struggled to staff appropriately." The unemployment rate fell to 3.4% versus the estimate for 3.6%. That is the lowest jobless level since May 1969. The labor force participation rate edged higher to 62.4%.

A broader measure of unemployment that includes discouraged workers and those holding part-time jobs for economic reasons also edged higher to 6.6%. The household survey, which the Labor Department uses to compute the unemployment rate, showed an even bigger increase of 894,000.

"Today's jobs report is almost too good to be true," wrote Julia Pollak, chief economist at ZipRecruiter. "Like \$20 bills on the sidewalk and free lunches, falling inflation paired with falling unemployment is the stuff of economics fiction."

Source: <https://www.cnn.com/2023/02/03/jobs-report-january-2023-.html>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

The 10Y Treasury yield will likely continue to trade within the 3.30% to 3.80% range. With inflation trending lower, SLIMTC sees sell-offs in US Treasuries as good opportunities to add duration.

#### PHP FIXED INCOME

SLIMTC sees good value in the upcoming 5.5Y RTB issuance given that the BSP is approaching the end of its hiking cycle, and inflation is expected to moderate within the year. Early indicative range is at 5.75% to 6%.

### Local Equities

PH January inflation and corporate earnings results may dictate PSEi movement. PSEi may stay above 7,000 level as foreign inflows continue. US markets broke above its downtrend pattern and may further provide positive sentiment on risk assets.

### Global Funds

SLIMTC keeps a cautious equities view but reallocates some exposure to DM - US/Europe as macro and policy environment improves while earnings remain in-line. We continue to remain invested in EM/AxJ markets as their earnings momentum and recovery stories still trade at more palatable valuations versus their DM peers. We retain Chinese exposure at slight overweight on optimism that reopening will accelerate and feed into stronger China economic performance.

## Economic Calendar

Date	Metric	Previous	Consensus Estimate
7-Feb-23	PH CPI Inflation (Jan)	8.1%	-
8-Feb-23	PH Unemployment Rate (Dec)	4.20%	-
10-Feb-23	US UofMich Consumer Sentiment (Feb)	64.9	65
14-Feb-23	US Inflation (Jan)	6.50%	6.30%

## Our House View

### Economic Forecast (as of 6 Feb 2023)

#### Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	4.50%	2.00%	7.00%
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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