

# US Consumer Sentiment Improves

## Previous Week Summary

### Equity markets pull back on strong jobs report and Fed jitters

Equity markets pulled back and saw its worst week in 2023 both for stocks and bonds as investors faced the prospects of sticky inflation due to a more resilient labor market. Returns for the major indices fell in the red with the S&P 500 and Euro Stoxx 600 both retreating by -1.07% and -2.03%. Asian markets were not spared as the MSCI Asia Pacific index pulled back 2.21% as momentum from the China reopening rally stalled. Japanese equities bucked the trend with the Topix ending in positive territory, +0.50% after strong earnings and a more optimistic macro picture provided a boost. We wait for cues from the US CPI print and retail sales numbers as potential catalysts moving forward.

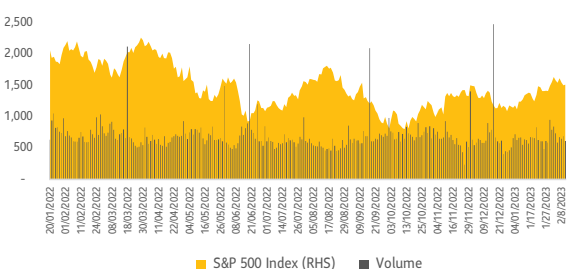
### Bonds sold off as inflation worries resurface

US Treasury yield curve shifted higher as market participants reconsider rate hike bets after strong NFP data and consistently hawkish statements from members of the Fed. The terminal rate has been repriced to 5.20%. In the Philippines, the January CPI report surprised to the upside with headline print of 8.7% yoy driven by both food and non-food components. The local yield curve bear steepened as market braced for a more hawkish BSP in the upcoming Monetary Board (MB) meeting. Moreover, the BTr set the coupon for the 5.5Y RTB at 6.125%. Demand has been strong with total volume awarded at close to PHP 300 billion already.

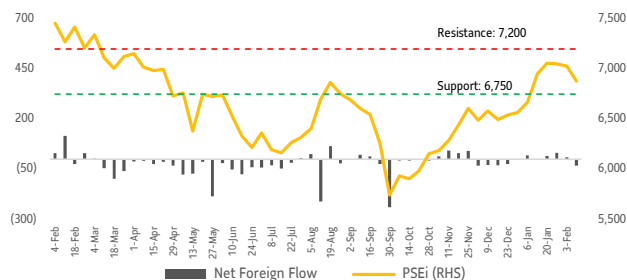
### Philippine Equities correct lower on Jan PH inflation and US NFP surprise

The local equity bourse fell markedly last week, losing 150.08 points (-2.14%) WoW to close at 6,876.8. Market sentiment turned for the worse following January inflation print's unwelcome surprise to the upside, at 8.7% y/y (vs. consensus of 7.6%), and as Fed policy was likewise seen staying tighter for longer following the unexpectedly strong January NFP print. Net foreign selling this week was \$33Mn with MSCI re-balancing dictating most of the week's top and bottom performers.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

U.S. consumer sentiment improved to a 13-month high in February, but households expected higher inflation to persist over the next 12 months, the University of Michigan survey showed on Friday.

The University of Michigan's preliminary February reading on the overall index of consumer sentiment came in at 66.4, the highest reading since January 2022, up from 64.9 in the prior month. Economists polled by Reuters had forecast a preliminary reading of 65.0.

The sentiment index has rebounded from a low of 50.0 in June last year. The survey's measure of current economic conditions increased to a reading of 72.6 this month from 68.4 in January. Its gauge of consumer expectations dipped to 62.3 from a reading of 62.7 last month, likely reflecting lingering recession fears.

The improvement in sentiment was probably driven by a rally on the stock market and persistent labor market strength. It raised hope that the economy could avoid the much-feared recession and that any downturn would likely be short and mild, economists said. Rising sentiment also suggested that the sharp declines in retail sales in November and December were a fluke.

Source: <https://www.reuters.com/markets/us/us-consumer-sentiment-improves-february-2023-02-10/>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

Key data for the week will be the January inflation print. SLIMTC maintains the 3.30% to 3.80% range for the 10Y US Treasury yield.

#### PHP FIXED INCOME

Key event for the week will be the BSP MB meeting. The upside surprise in January CPI opens the possibility of a 50 bp rate hike. This has not yet been priced in by the market. As such, SLIMTC sees risk of yields moving higher especially with the ongoing sell-off in US Treasuries.

### Local Equities

The BSP policy rate announcement and corporate earning results will dictate PSEi movement in the coming week. PSEi is nearing the 5-day moving average (6771), the first support of this rally. The pull back is great as the index sets up for a new rally after coming from overbought levels. RSI (Relative Strength Index) has normalized to 49 recent high of around 71.

### 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
16-Feb-23	BSP Monetary Policy Meeting	5.50%	5.75%
15-Feb-23	US Retail Sales (Jan)	-1.10%	1.70%
14-Feb-23	US Inflation (Jan)	6.50%	6.30%

## Our House View

### Economic Forecast (as of 13 Feb 2023)

#### Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	6.00%	3.00%	9.00%
PH GDP	5.30%	4.30%	6.40%
USDPHP	55	52	57
BSP Policy Moves	At Least 2	2	3
BSP Policy Rate	50 bps/meeting	75 bps	100 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	25bps/meet	50 bps	75 bps
US 10Y	3.50%	3.30%	3.70%
US Recession Probability 2023	High	-	-

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