

US 4Q 2022 GDP Shows Signs of Losing Steam

Previous Week Summary

US Equity Markets declined on higher than expected core personal consumption expenditure

U.S. stocks fell sharply last Friday, after the core personal consumption expenditures (PCE) price index, the Fed's preferred measurement of inflation, rose 0.6% in January and 4.7% from the prior year, above economists' expectations. This raised fears that policymakers will need to be more aggressive in hiking interest rates to bring down prices. Last week, the Dow and Nasdaq were down about 3%, and the S&P 500 dipped 2.7%. For this week, U.S. stocks are poised for a mixed open, as the market enters the tail end of fourth-quarter earnings season amid several well-watched economic indicators, including the Conference Board's Consumer Confidence Index for February coming out Tuesday.

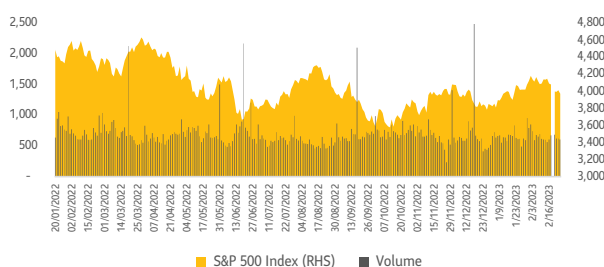
US Treasury yield curve shifts higher anew, while local bonds find support in supply relief

US Treasury yields hit fresh YTD highs last week after US Core PCE rose 0.571%. With the Fed's preferred inflation gauge rising stronger than consensus expectations of 0.4%, market participants see increased risks of a more hawkish Fed pushing policy rates to 5.25% to 5.50%. In the Philippines, bond yields in the belly to long-end were lower by up to 5 bps over the week as market participants react positively to news that the BTr will be reducing the size of its weekly T-bond auction in March to PHP 35 billion from PHP 35 billion.

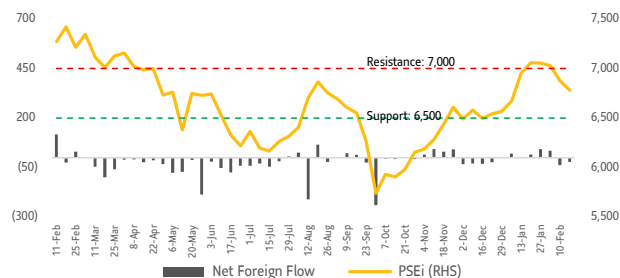
Philippine Equities continue to fall as sentiment remains cautious

The PSEi continued to retreat last week as the market continued to digest market news including hawkish expectations in the US and inflation. Overall sentiment was also dampened by Socioeconomic chief Basilacan's comments that Feb CPI may plateau but still remain-elevated in the near term. The PSEi settled on Thursday at 6,685.90 with all sub-indices down as well. Foreigners were net sellers at USD30Mn vs USD22Mn outflow the week prior. ADV was USD72mn this week vs YTD USD140mn.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

The U.S. economy expanded at a 2.7% annual rate from October through December, a solid showing despite rising interest rates and elevated inflation, the government said Thursday in a downgrade from its initial estimate.

The government had previously estimated that the economy grew at a 2.9% annual rate last quarter.

The Commerce Department's revised estimate of the fourth quarter's gross domestic product — the economy's total output of goods and services — marked a deceleration from the 3.2% growth rate from July through September.

Thursday's report also revised down the government's estimate of consumer spending growth in the October-December quarter, from a 2.1% rate to 1.4%. That was the weakest such showing since the first quarter of last year. Business spending also slowed in the fourth quarter, suggesting that the economy lost momentum at the end of 2022.

<https://www.cbsnews.com/news/gdp-economic-growth-q4-2022-2-7-percent-rate/>

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Bright Ideas

Fixed Income

USD FIXED INCOME

US Treasury yields are now trading at the upper end of SLIMTC's trading range. With market pricing in more rate hikes than the Fed's latest dot plot, current levels offer good entry opportunities.

PHP FIXED INCOME

Local bonds appear supported at current levels. However, upside risks remain especially with the ongoing sell-off in US Treasuries. SLIMTC continues to prefer long-end bonds as BSP approaches the end of its hiking cycle, and local inflation outlook improves.

Local Equities

The higher inflation expectation for 2023 is causing some risk-off sentiment in the market. The next support at 6,500 may be revisited as foreign investors continue to net sell. Earnings results would dictate price movements in the coming weeks.

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 maintain the view that China's reopening will accelerate and support the regional growth story.

Economic Calendar

Date	Metric	Previous	Consensus Estimate
28-Feb-23	PH Bank Loan Growth (Jan)	9.90%	
1-Mar-23	ISM Manufacturing (Feb)	47.40%	
2-Mar-23	Initial Jobless Claims (3rd week of Feb)	192k	

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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