

# Fed Chair Powell Seen To Revert Back To Higher Hikes

## Previous Week Summary

### Global stocks rebound despite tight labor market. Key data releases to drive market action this week

Global stocks ended the week on a high note with the MSCI ACWI returning 1.47%. US stocks reversed earlier losses rallying by 1.47%. Investor sentiment remained upbeat despite data showing continued US labor market resilience which supports the case for a more aggressive tightening cycle. Momentum in European markets stalled as the Stoxx 600 Index remained flat at +0.65% for the week. Inflation remains the primary concern as prints in key Eurozone markets such as Germany and Spain came in above expectations. This week looks to be pivotal for the markets as a bevy of labor market data will be released including Non Farm Payrolls, JOLTS, Unemployment rate etc. All of these would give clues on whether or not the higher for longer policy of the Fed will remain.

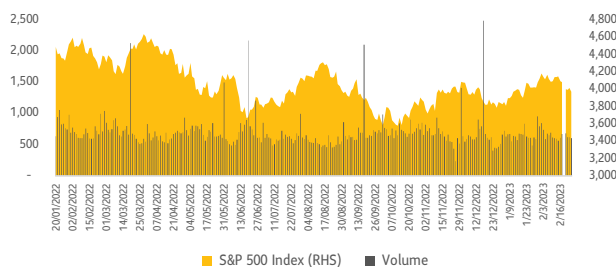
### US Treasury yield curve bear flattened, while local bond yields rose ahead of inflation print

Long-end US Treasury yields broke above the 4% level, but found buyers step back in on Friday. The 10Y yield ended with slight change at 3.95%. Market participants are now pricing in peak Fed Funds rate of 5.45% as strong data on labor and economic activity may continue to challenge the path of disinflation. In the local market, government securities sold off after the BSP released its inflation forecast of 8.5% to 9.3% for the month of February and complemented it with hawkish statements. Yields rose 10 to 25 bps across the curve.

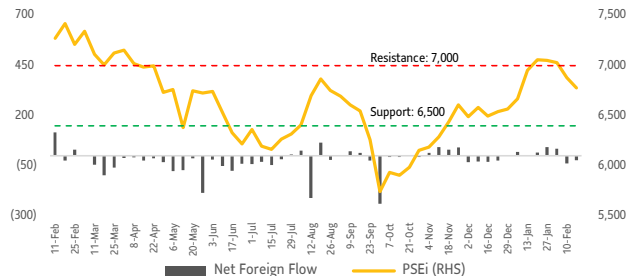
### Philippine Equities continue to fall as sentiment remains cautious

The local equity bourse was down for sixth straight week, losing 30.53 points (-0.46%) WoW, to close at 6,665.37 as markets reduced risk ahead of February inflation print this week, which the BSP would respond to with a half-point hike, it warned, should inflation meet or exceed 9% y/y. In addition, MSCI flows sent the bourse into an intra-week low of -1.94% before generally positive FY22A earnings results brought it back up.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

The Federal Reserve Chairman's testimony to Congress next week is likely to be very succinct and can be summed up neatly as "the risks of doing too little are far greater than the risks of doing too much," economists said Friday.

"The Fed is getting a little more hawkish than we pictured them at the end of last year," said Michael Gregory, deputy chief economist at BMO Capital Markets.

Powell will testify on Tuesday to the Senate Banking Committee and on Wednesday to the House Financial Services panel. Both hearings are set to begin at 10 a.m. Eastern. Recent economic data is putting pressure on the Fed to be more aggressive in its monetary policy, economists said.

Less than two months ago, the narrative was that the U.S. economy was slowing and inflation was cooling and maybe the Fed only needed to raise interest rates a couple more times.

But since then, things have changed significantly.

<https://www.marketwatch.com/story/powell-to-talk-to-congress-about-the-possibility-of-more-interest-rate-hikes-not-fewer-a0951e8>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

SLIMTC expects volatility in the bond market to persist ahead of the payrolls and inflation print in the US. Key data for the week will be the February payrolls report. Another strong print similar to what markets saw last month could push US Treasury yields higher anew.

#### PHP FIXED INCOME

Key data for the week will be the February inflation report due on Tuesday (March 7). A headline print above 9% will likely force the BSP to hike another 50 bps in this month's Monetary Board meeting. Bonds will likely sell-off further in this scenario. Moreover, a headline print within or below consensus expectations of 8.9% can support bonds at current levels.

### Local Equities

Feb Inflation to be released on Mar 7 will take center stage and may trigger further risk off sentiment if the print goes above expectations of 8.9%. Next support is at 6.549 (100d MA).

### 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 upweight 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
7-Mar-23	PH Inflation (Feb)	8.70%	8.90%
9-Mar-23	PH Labor Force Survey (Jan)	4.30%	
8-Mar-23	US ADP Employment (Feb)	106k	210k
10-Mar-23	US Nonfarm Payrolls (Feb)	190k	225k

## 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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