

# Strong Jobs Numbers Ahead of Fed Meeting

## Previous Week Summary

### Global stocks sell off as SVB bankruptcy rattle markets.

Global stocks experienced their worst week this year as all major indices ended deeply in the red. The MSCI ACWI closed -3.81% as the market was jolted by the bankruptcy of SVB possibly causing contagion effects to the tech and banking community. No market was spared as the Stoxx Europe 600 ended -2.14%. The MSCI AxJ finished -4.35% and CSI 300 returned -3.19%. The Topix was the lone market delivering positive returns of +0.64%. Aside from developments on SVB, key market catalysts for the week include US February 2023 CPI print, retail sales, unemployment claims and housing related data. A deterioration of these data especially labor market could give a glimmer of hope that the FED might not have to go higher than what was originally planned.

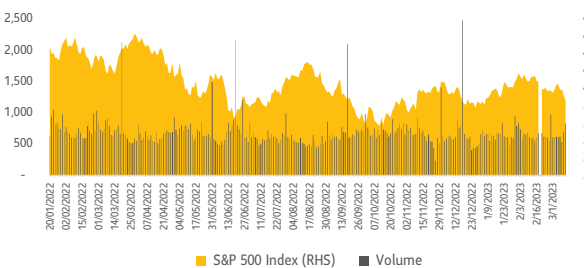
### Bond yields tumble as news of SVB shutdown overshadow hawkish Fed

It has been a volatile week for US Treasuries. During the first half of the week, yields rose to their highest level this year as market adjusted terminal rate expectations on the back of Powell's testimony where he discussed the possibility of more aggressive hikes. However, Silicon Valley Bank's (SVB) troubles and eventual shutdown pushed US Treasuries to rally towards the end of the week as market participants seek safe haven assets amidst fears of contagion in the U.S. banking sector. In the Philippines, headline inflation came in below consensus expectation at 8.6% YoY, increasing the probability of a downshift to a 25 bp rate hike by the BSP in the next Monetary Board meeting. Yields in the belly to long-end rallied 10 to 20 bps lower.

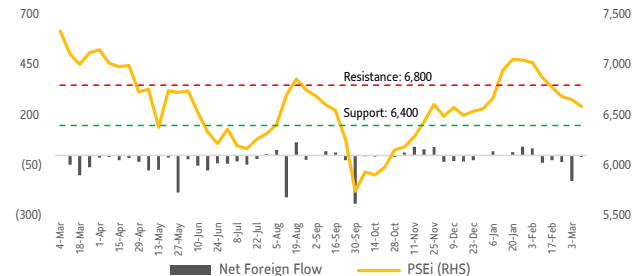
### Philippine Equities starts week strong only to cede to hawkishness towards week's end

The PSEi started the week on a positive note and was helped by a lower-than-expected February inflation print, only to give into renewed hawkishness and downturn in equities globally towards Friday. The main equity bourse lost 65.49pts, down 0.98% w-w, to end at 6,589.88. Most sectoral indices were also down for the week, with Mining & Oil leading the decline at a -3.40% w-w loss while Services led gainers at a +1.24% w-w gain. Foreigners were net sellers for the week at USD7.8mn, bringing ytd net outflows to USD76mn.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

America's employers added a substantial 311,000 jobs in February, fewer than January's huge gain but enough to keep pressure on the Federal Reserve to raise interest rates aggressively to fight inflation.

The unemployment rate rose to 3.6%, from a 53-year low of 3.4%, as more Americans began searching for work but not all of them found jobs.

Friday's report from the government made clear that the nation's job market remains fundamentally healthy, with many employers still eager to hire. Fed Chair Jerome Powell told Congress this week that the Fed would likely ratchet up its rate hikes if signs continued to point to a robust economy and persistently high inflation. A strong job market typically leads businesses to raise pay and then pass their higher labor costs on to customers through higher prices.

February's sizable job growth shows that so far, hiring is continuing to strengthen this year after having eased in late 2022. From October through December, the average monthly job gain was 284,000. That average has surged to 351,000 for the past three months.

<https://apnews.com/article/jobs-unemployment-inflation-economy-federal-reserve-43c8e14bccdae79da2e58a57a902d154>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

SVB-related headlines will continue to drive market sentiment. Moreover, key data for the week will be the February inflation data. SLIMTC prefers to add duration in the current market environment where risk-off sentiment will likely persist. Our updated trading range for the 10Y yield is 3.40% to 3.80%.

#### PHP FIXED INCOME

Local bonds will continue to see strong demand at current levels. Developments in global markets will be closely watched as the possibility of a less hawkish Fed will help sustain local bond rally. SLIMTC prefers to position in the long-end of the curve.

### Local Equities

PCOMP will be influenced by corporate earnings releases during the week, foreign funds flow, and movements of the US equity market. The local bourse is still trading above the 200d MA of 6500 while S&P 500 now trades below 200d MA of 3,940. Next support for PCOMP is 6,400. Local banks can see some selling pressure due to negative sentiment from the Silicon Valley Bank event. We think local banks are in better financial position and any significant correction should be taken as an opportunity to accumulate.

### 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 retain our EM/AxJ exposure as their earnings momentum and recovery stories still trade at more palatable valuations versus their DM peers. We maintain the view that despite China's positive economic momentum - fund flows into the market will be challenged as sentiment towards risk remain poor.

## Economic Calendar

Date	Metric	Previous	Consensus Estimate
14-Mar-23	US CPI (Feb)	6.40%	6.10%
15-Mar-23	US Retail Sales (Feb)	3.00%	-0.40%
23-Mar-23	PH BSP Monetary Policy	0.25%	0.50%

## Our House View

### Economic Forecast (as of 13 Mar 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 1	1	3
BSP Policy Rate	25bps minimum	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	1-2	1	2
Fed Policy Rate	25bps/meet	25 bps	50 bps
US 10Y	3.25%	3.00%	3.50%
US Recession Probability 2023	High	-	-

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