

Main Street Starts To Feel Wall Street Stress

Previous Week Summary

Investors shift to tech as health of banks threaten the global economy

Technology stocks were the beneficiary of a tumultuous week for global markets as concerns on the banking sector threatened to tip the global economy into recession. The MSCI ACWI ended flat -0.01% as the NASDAQ 100 rose 5.8% to notch its best week since November. The S&P 500 also carved out a 1.4% gain despite being dragged by banking shares. Poor sentiment affected European markets with the Euro Stoxx 600 sliding by -3.70% and FTSE 100 losing -4.22%. Credit Suisse's shares were sold off as its long term issues on liquidity/profitability caused concerns in the market. Asian markets were not as affected with the MSCI Asia ex Japan advancing +1.0% despite the sharp drop at the start of the week.

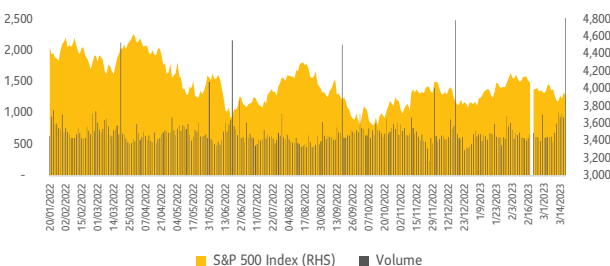
Bonds saw the most volatile week post-pandemic

The troubles that the market saw with Silicon Valley Bank (SVB) was just a start to a series of financial news that would bring the most volatile week for the bond market, two other US banks were reported to be in crisis, namely Signature Bank and First Republic, and to add to the fears, Swiss bank-Credit Suisse was also seen adding more fuel to the already raging fire in the global financial system. The 2-year US treasuries were seen trading within an 80 basis point range with a high of 4.55% and a low of 3.75%, and the 10 Year US treasuries within a range of 3.75% to 3.40%

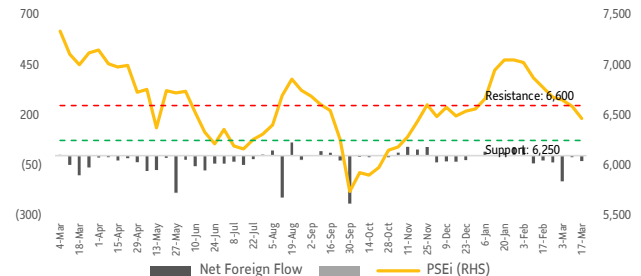
Philippine equities decline amid global fears, received some relief on Friday

The PSEI closed the week slightly lower despite Friday's advance alongside global markets. The positive mood on Friday came as the banking system calmed fears. The index was also heavily influenced throughout the week by FTSE rebalancing activity. The index ended the week at 6,469.72 (-1.82%). Net foreign selling was at P27.34Bn while ADVT was P11.69Bn. All sectors except holding firms declined with services declining the most at -4.65% followed by Property (-3.16%) and Industrials (-2.39%).

S&P 500 Index



Philippine Stock Exchange Index



Economic News

Main Street businesses and American families are likely to find it harder to get a loan because of turmoil in the banking industry, denting economic growth and raising the risk of a recession.

"The risk in terms of the spark from SVB is real," said Greg Daco, chief economist at EY-Parthenon, a strategy consulting unit of Ernst & Young LLP. The collapse of Silicon Valley Bank set off fear among depositors that led to the failure of Signature Bank and the move to rescue First Republic Bank.

"Once there is stress in a particular set of institutions, then those institutions and those that have similarities will tend to be more cautious in their lending," he said. "We're likely to be in this state for a prolonged period."

Smaller banks are crucial drivers of credit growth, the fuel that powers the economy. Banks smaller than the top 25 largest account for around 38% of all outstanding loans, according to Federal Reserve data. They account for 67% of commercial real estate lending.

<https://www.wsj.com/articles/smaller-banks-critical-role-in-economy-means-distress-raises-recession-risks-ba31e6a8>

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Bright Ideas

Fixed Income

USD FIXED INCOME

All eyes are on the US Federal Reserve this week as a lot of repricing was seen in terms of policy rate expectations. SLIMTC prefers to add duration via US treasuries in this current market environment where risk off sentiment and future growth uncertainties are present. Our trading range for the 10Y yield is 3.40% to 3.80%.

PHP FIXED INCOME

Local bonds are expected to see little action in terms of price and volume ahead of the BSP Monetary Board meeting and Federal Open Market Committee meeting. SLIMTC continues to prefer to position in the long-end of the curve for better yields.

Local Equities

Market sentiment will remain fragile in the short run as investors continue to digest contagion risks on US regional banks and Credit Suisse. The PSEi may remain bearish as it trades below 200d MA and as BSP is expected to hike rates by 25bps during its March 23 meeting.

Global Funds

SLIMTC continues to be cautious as risk-reward towards global equities remains lackluster. We also limit exposure towards cyclical names such as banks due to potential contagion effects. As probability of recession increases, we limit our exposure to US and Europe. 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
21-Mar-23	US Fed Meeting	+25bps	Pause
23-Mar-23	US Weekly Jobless Claims	1.68 million	
23-Mar-23	BSP Monetary Board Meeting	+50bps	+25bps

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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