

IMF Calls For Greater Vigilance on Financial Stability

Previous Week Summary

Brutal week for Banks ends on a positive note as reversal spurs a rebound in stocks

A reversal of the bank selloff that rattled markets on Friday spurred a rebound in stocks. This sentiment shift came after assurances from authorities that financial stability will not be sacrificed amidst its inflation fight. The MSCI ACWI rose +1.50%, supported with gains across all major markets. US markets recovered led by the Nasdaq 100 +1.99% and the S&P 500 1.41% despite US financial heavyweights dropping to its lowest levels since Nov 2020. European markets also enjoyed the same bounce back despite liquidity worries feeding market confidence amongst its biggest banks. The Euro Stoxx 600 was up 1.83% for the week, even after most European markets sold off last Friday. The FTSE 100, CAC 40 and DAX all lost by more than 1%. In Asia, the MSCI Asia Pacific ex Japan held firm leading all regions with a +2.16%. China also registered gains closing 2% above the previous weeks level. These stellar performance could be attributed to the continued reopening story and possible rotation out of DM as recession fears intensify.

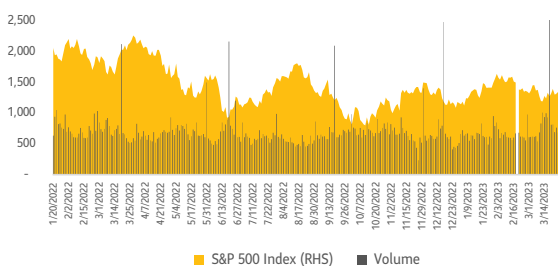
All Eyes on the Central Banks

Both in the US and the Philippines, markets saw a slowdown in volatility as central banks were put on focus, mainly on the policy rate decision meetings by both the US Federal Reserve and Bangko Sentral ng Pilipinas, where both, as expected, hiked their respective policy rates by 25 basis points. On the press conference after the US Policy Meeting, Fed Chair Jerome Powell, reiterates their support to the US banking system to ease the growing fears of a systemic crisis.

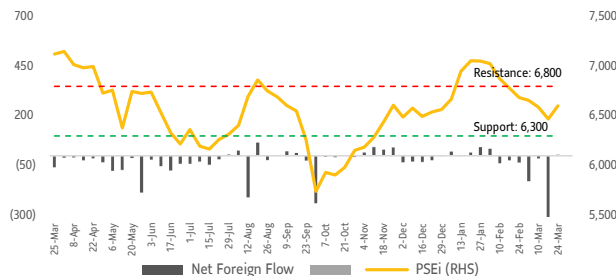
Bargain hunting lifts Philippine equities above key support level as hikes diminish

The PSEi managed to break eight weeks of weekly losses last Friday as the BSP tapered its pace of interest rate hikes to 25bps last Thursday. The main equity bourse gained 132.45pts, up 2.05% w-w, to end at 6,602.17. Further positivity was supported by the BSP lowering its inflation outlook for 2023 from 6.1% to 6.0% and 2024's outlook from 3.1% to 2.9%. All sectoral indices were also up for the week, with Services leading the pack with a +4.53% w-w gain and with Financials at the other end with +0.04%. Foreigners were net buyers for the week at USD4.06mn, vs USD499.92mn net outflow the week prior.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

International Monetary Fund chief Kristalina Georgieva said on Sunday that risks to financial stability have increased and called for continued vigilance although actions by advanced economies have calmed market stress.

The IMF managing director reiterated her view that 2023 would be another challenging year, with global growth slowing to below 3% due to scarring from the pandemic, the war in Ukraine and monetary tightening.

Even with a better outlook for 2024, global growth will remain well below its historic average of 3.8% and the overall outlook remained weak, she said at the China Development Forum.

The IMF, which has predicted global growth of 2.9% this year, is slated to release new forecasts next month.

Georgieva said policymakers in advanced economies had responded decisively to financial stability risks in the wake of bank collapses but even so vigilance was needed.

<https://www.cnbc.com/2023/03/26/imf-risks-to-financial-stability-have-increased-calls-for-vigilance.html>

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Bright Ideas

Fixed Income

USD FIXED INCOME

Rates may continue to see downward pressures as recession fears grows due to uncertainties in the US banking sector. Despite a very recent hike by the US Federal Reserve, economist are already starting to price in as much as 100 basis points of rate cuts before the end of 2023.

PHP FIXED INCOME

Bangko Sentral ng Pilipinas Governor Felipe Medalla and Finance Secretary Benjamin Diokno signal a possible pause on the central bank's hiking as early as next meeting. Also, Governor Medalla also signaled that rate cuts will not come until inflation goes back to the Central Bank's target. Further evidence of slowing inflation might put downward pressure on yields and increase the demand for duration.

Local Equities

Quarter-end window dressing may keep stock prices afloat. Investors will still monitor developments on US and EU banks, which may still provide volatility in the equity markets in the short-run. PH's 4Q/FY22 corporate earnings results will soon come to a close, investors will price-in any potential upgrades and downgrades on companies that were ahead and behind expectations.

Global Funds

SLIMTC continues to be cautious as risk-reward towards global equities remains lackluster. The strategy is to limit exposure towards cyclical names such as banks due to potential contagion effects. As probability of recession increases, exposure to US and Europe will be limited. EM/AxJ exposure will be retained as their earnings momentum and recovery stories still trade at more palatable valuations versus their DM peers. 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
29-Mar-23	US Home Sales (Feb)	8.10%	
30-Mar-23	US GDP (1Q, 2nd revision)	2.70%	
30-Mar-23	PH Producers Price Index (Feb)	4.20%	
31-Mar-23	PH Bank Loans (Feb)	10.80%	

Our House View

Economic Forecast (as of 28 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 pause	0	2
BSP Policy Rate	0 bps	0 bps	50 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	0-1	0	1
Fed Policy Rate	0-25bps	0 bps	25 bps
US 10Y	3.25%	3.00%	3.50%
US Recession Probability 2023	High	-	-

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