

US Bank Earnings Show First Signs of Cracks

Previous Week Summary

Market slip amidst thin trading due to easter festivities

US stocks slip while dollar rose on thin trading as investors factored in one more Federal Reserve interest rate hike after resilient US jobs numbers. The S&P 500 slumped -0.43% for the week while the Nasdaq trailed by about 1%. Trading volumes were light across major European, Asian and Australian markets due to the Easter holidays. Nonetheless, market action still delivered European outperformance with the STOXX Europe 600 registering 0.7% weekly return. The TOPIX lagged returning -2.1% as investors were on a wait-and-see mood as the new Japan Central Bank governor was inducted. This week we have US CPI, PPI and Claims data as potential news flow to drive markets in the near-term.

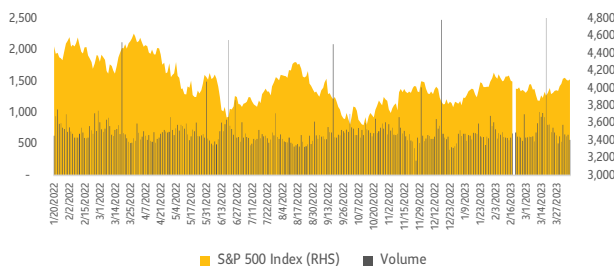
Bonds rallied during the shortened trading week

US Treasuries rallied as concerns over the health of the US economy surfaced after the ISM manufacturing survey and JOLTS new job openings data came out below consensus expectation. Nonetheless, the strong payrolls data on Friday reversed some of the gains as we saw the 10Y yield close the week at 3.41%, after falling briefly below 3.30%. In the Philippines, headline CPI for March came in at 7.6% y/y, which translates to a flat m/m change. The latest data point confirms that headline inflation has peaked. Bonds rallied by 2 to 15 bps across the curve over the week.

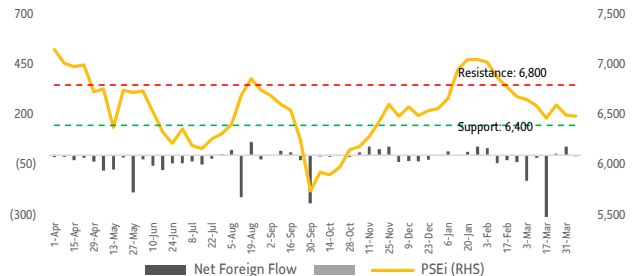
PSEI relatively flat last week amid shortened trading and better-than-expected inflation

The PSEi was relatively flat, down just 0.17% to 6,488.51 as it made back losses on Wednesday; March inflation figures beat estimates at 7.6% vs the consensus 8% forecast. Property outperformed last week after signaling from the BSP on a potential pause for rate hikes, while earnings reports and ex-div dates affected some movement. The market remained flat on light trading volume during the shortened trading week.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

Most Wall Street banks are likely to report lower quarterly earnings and face a dour outlook for the rest of the year, with last month's regional banking crisis and a slowing economy expected to hurt profitability.

Earnings per share for the six biggest U.S. banks are expected to be down about 10% from a year earlier, analyst estimates from Refinitiv I/B/E/S show. Banks start reporting results on April 14.

Access to cheap deposits, which swelled for bigger banks as savers fled smaller lenders in the wake of Silicon Valley Bank's collapse last month, likely boosted net interest income for the largest banks, analysts said.

JPMorgan Chase & Co (JPM.N), the largest U.S. bank, is likely to come out ahead of the pack as its net interest margin - interest earned on loans versus interest paid to depositors - was higher than some of its peers, analysts said.

<https://www.reuters.com/business/finance/wall-street-bank-earnings-under-pressure-after-crisis-2023-04-10/>

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Bright Ideas

Fixed Income

USD FIXED INCOME

US CPI data for March is due on April 12. Consensus expectation is to see a further deceleration as base effects kick in. An inflation print below the consensus expectation of 5.1% will increase the odds for a Fed pause. Market is currently pricing in a 70% likelihood of a 25 bps hike in the next FOMC. Our range for the 10Y yield is at 3.20% to 3.60%.

PHP FIXED INCOME

This week's FXTN 10-69 auction will help gauge market demand for RPGBs at current levels. Bond yields have rallied back to this year's lows after better than expected inflation data. Nonetheless, bonds may be due for some profit-taking soon and we see this as an opportunity to add duration at better levels.

Local Equities

Market activity may remain slow during this shortened trading week, with the PSEI trading between 6,400-6,600 range. Investors await for next catalyst which will be the first quarter corporate earnings reports, expected to start coming in towards end of April.

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 will be limited. We remain constructive on Europe as earnings have surprised on the upside despite persistent inflation and the energy crunch. EM/AxJ exposure will be recalibrated as Chinese reopening momentum fail to excite investors. Strategy will be to stay weighted as longer term positives for these market remain intact.

Economic Calendar

Date	Metric	Previous	Consensus Estimate
11-Apr-23	PH Unemployment Rate (Feb 2023)	4.80%	
12-Apr-23	US Core CPI (Mar 2023)	5.50%	5.60%
12-Apr-23	US CPI (Mar 2023)	6.00%	5.20%
14-Apr-23	US Core CPI (Mar 2023)		

Our House View

Economic Forecast (as of 28 March 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	1
BSP Policy Rate	0 bps	0 bps	25 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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