

# The US Sees Its Third Regional Bank Bailout

## Previous Week Summary

### US stocks rose last week amid strong earnings, economic data

U.S. large-cap equity indices rose last week ahead of the U.S. Federal Reserve's (Fed) upcoming meeting on May 3, 2023. The Dow Jones Industrial Average increased by 289 points or 0.9% to 34,098.16, the S&P 500 rose by 35.96 points or 0.9% to 4,169.48, and the NASDAQ Composite gained 154.12 points or 1.3%, to 12,226.58. U.S. inflation in April is expected to remain close to the 5% level registered this past March. While this is a significant improvement from last June's 9.1% reading, there is still much room to go before reaching the Fed's 2% inflation target. In line with this, the market expects the Fed to raise its policy rate by 25 bps during its May 3 meeting.

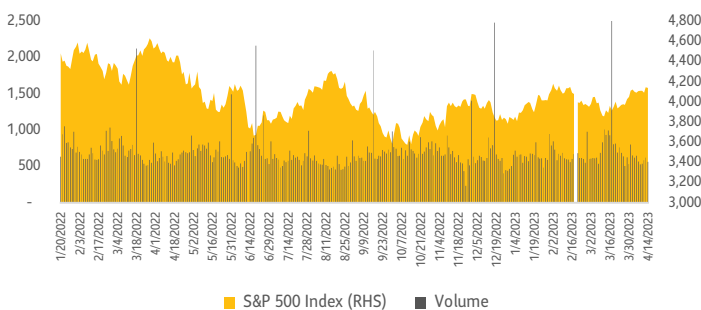
### Bonds rally on the back of safe haven demand in the US, and improving inflation outlook in the Philippines

Concerns over the failure of First Republic Bank and month-end demand for duration led US Treasury yields lower across the curve. The 10Y yield dropped 15 bps to close the month at 3.42%. In the Philippines, the BTr's announcement of its May borrowing schedule coupled with BSP's inflation forecast for April (6.3% to 7.1% range) pushed local bond yields lower. FXTN 20-25 (20Y) outperformed the rest of the curve and rallied 16 bps over the week.

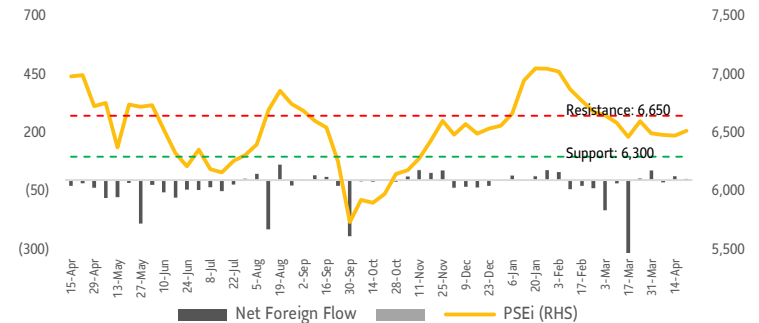
### PSEi continued to rise amid generally positive earnings and sentiment

The PSEi ended the week on a high note as domestic first quarter earnings and continued optimism on April's inflation print from the BSP buoyed the index. While the index dipped mid-week amid speculation and jitters over a Western banking crisis, the index rallied towards the end of the week and ended up +1.6% and settled at 6,625.08. Foreigners were net buyers for the week while average daily value traded was at 5.81bn. Financials were the main outperformer, up 3.95% for the week, followed by Industrials (+1.80%), Holding (+1.38%), and Property (+1.49%). Services (-0.39%), and Mining and Oil (-0.51%) were down.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

Regulators seized First Republic Bank and struck a deal to sell the bulk of its operations to JPMorgan Chase & Co., heading off a chaotic collapse that threatened to reignite the recent banking crisis. JPMorgan said it will assume all of First Republic's \$92 billion in deposits—insured and uninsured. It is also buying most of the bank's assets, including about \$173 billion in loans and \$30 billion in securities. As part of the agreement, the Federal Deposit Insurance Corp. will share losses with JPMorgan on First Republic's loans. The agency estimated that its insurance fund would take a hit of \$13 billion in the deal.

JPMorgan also said it would receive \$50 billion in financing from the FDIC. San Francisco-based First Republic, the second-largest bank to fail in U.S. history, lost \$100 billion in deposits in a March run following the collapse of fellow Bay Area lender Silicon Valley Bank. It limped along for weeks after a group of America's biggest banks came to its rescue with a \$30 billion deposit. Those deposits will be repaid after the deal closes, JPMorgan said.

<https://www.wsj.com/amp/articles/first-republic-bank-is-seized-sold-to-jpmorgan-in-second-largest-u-s-bank-failure-5cec723>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

A 25 bp rate hike from the Fed is already widely expected by market participants in this week's FOMC. The committee's forward guidance will be awaited as market participants look forward to the end of the hiking cycle. Currently, market is not yet pricing in a rate hike for June. SLIMTC maintains its 3.30% to 3.60% range for the 10Y US Treasury yield.

#### PHP FIXED INCOME

April inflation data is due on May 5. Consensus expectation is at 7%. Another deceleration will likely indicate a pause in the hiking cycle in this month's BSP Monetary Board meeting. SLIMTC remains constructive on duration given the macroeconomic backdrop.

### Local Equities

Market sentiment is turning positive as foreign investors turned net buyers for the second consecutive week. PSEi broke above the 50-d MA and may test its next resistance of 6,680 (100-d MA). Next week will be very busy as investors await the US Fed policy rate decision as well as PH's April inflation.

### Global Funds

SLIMTC increases equity exposure gradually as investors position for a recovery. 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 calibrated. 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
3-May-23	PH Producer's Price (Mar)	3.6%	
3-May-23	US ADP Employment (Apr)	145k	143k
5-May-23	PH Consumer Price (Apr)	7.60%	7.00%
5-May-23	US Nonfarm Payroll (Apr)	236k	180k

## Our House View

### Economic Forecast (as of 2 May 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	-6.72%	-	-

#### US Forecasts for Year End

Metric	Midpoint	Low	High
Brent Spot Price	USD 97/bbl	USD 88/bbl	USD 106/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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