

# US Recession Talk Ahead of Fed Loan Survey

## Previous Week Summary

### Strong labor market, resilient economy complicates future FED policy decisions

Equity markets saw strong performance as regional banks rebounded and solid jobs data tempered fears of a recession. The S&P 500 halted its longest losing streak since February, rising by +0.42 for the week. The tech bellwether Nasdaq also gave upbeat results climbing by 1.30%. This pushed other major markets with the Europe (STOXX 600: +1.40%) and Asia ex Japan (+0.51%) all ending higher. US hiring, pay and participation all showed signs of labor market resilience. This strength makes future FED policy decisions trickier as it tries to balance inflation, growth and financial stability outcomes. Upcoming April CPI and PPI releases this week would serve as clues on whether a pause or a continuation in rate hikes is still forthcoming.

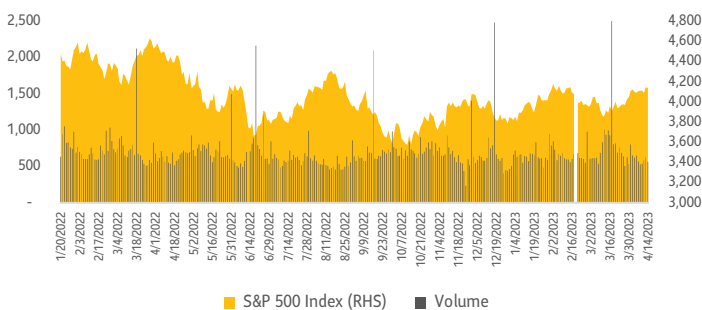
### Bonds rally as Fed signals possible pause and local inflation continues to decelerate

During the recent FOMC, the Fed delivered a 25 bp rate hike and communicated that policy decisions moving forward will be data dependent. The departure from the previous statement "some policy firming may be appropriate" was seen as dovish by market participants. The US Treasury yield curve shifted lower over the week. In the Philippines, bond yields rallied 20 to 30 bps across the curve on the back of dovish Fed and another lower than expected inflation print for April. Deceleration was driven by lower food and energy costs.

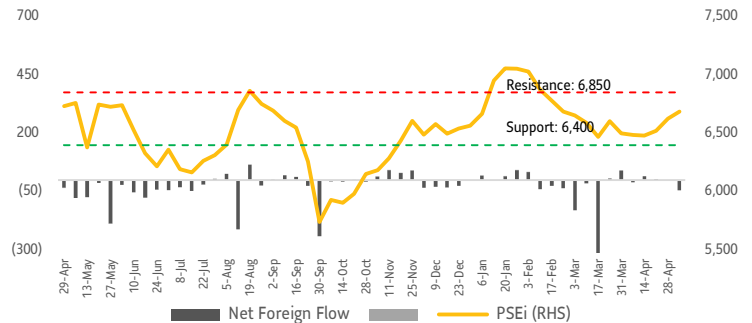
### PSEi continued to rise amid generally positive earnings and sentiment over tempering inflation

The local equity bourse traded sideways with a slight upward bias last week, gaining 60.6 points (+0.91%) to close at 6,685.66 as broad market sentiment improved given better-than-expected April inflation which may lead the BSP to pause on hiking rates and generally positive 1Q23 domestic earnings results.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

Some investors see a hard landing for the U.S. economy this year resulting from the sharply higher interest rates engineered by the Federal Reserve to quell inflation and tighter credit conditions in the wake of regional bank sector stress, while others note that consumer spending and employment growth remains healthy, but the Federal Reserve's loan officer survey due this week may provide more clarity on which view is more accurate.

"The last two rate hikes were nuts, to be blunt," said Edward Yardeni, president of Yardeni Research, in a phone interview. The Fed "could really cause a problem coming and going."

Concerns still swirl around the banking industry after the failure of Silicon Valley, Signature Bank and First Republic Bank in the past two months and the bond market is expressing the view that the Fed will have to cut interest rates as a result, despite Fed Chair Jerome Powell pushing back on that notion on May 3, the day it announced a 10th straight increase in rates.

<https://www.marketwatch.com/story/recession-fears-hang-over-market-insisting-on-rate-cuts-as-fed-loan-survey-looms-3ed7afe>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

SLIMTC maintains its 3.30% to 3.60% range for the 10Y US Treasury yield. It will be a data heavy week with April CPI due on May 10. We remain constructive on yields and will look to buy on sell-offs.

#### PHP FIXED INCOME

Local bonds will likely continue to see continued demand as market participants load up on duration amid improving inflation outlook. SLIMTC expects yields to be supported at current levels and continues to see value in buying bonds in the long-end.

### Local Equities

The market may see some correction next week after the rally in local equities (+1.5%). The surprise in inflation may push the BSP to pause rates and could impact our FX near-term. The market is currently trading near the 6,700 resistance, the high of March with support closer to 6,400.

### Global Funds

SLIMTC increases equity exposure gradually as investors position for a recovery. Nonetheless, investments will be calibrated to those names/funds less affected by the banking turmoil in the US. As a slowdown increases likelihood of a recession, exposure to US will be calibrated. We remain constructive on Europe as earnings have surprised on the upside despite the persistent inflation and the energy crunch. EM/AxJ exposure will be kept a neutral 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
8-May-23	PH Labor Force Survey (Mar)	4.8%	
10-May-23	US CPI (Apr)	5.00%	
10-May-23	US Core CPI (Apr)	5.60%	
11-May-23	PH 1Q GDP	7.20%	6.10%

## Our House View

### Economic Forecast (as of 8 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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