

# Debt Ceiling Keeping US Equities Down

## Previous Week Summary

### Global stocks slipped as Fed's signaled a potential pause in the interest rate hike cycle.

Global stocks slip as optimism on a pause in the Federal Reserve interest rate hiking cycle floundered. The S&P 500 (SPX) ended the week down 0.3% while the Nasdaq 100 eked out a 0.6% advance. CPI & PPI releases failed to excite investors as they only came in-line with market expectations (CPI: 4.9% y/y, PPI: 2.3% y/y). European shares were also lethargic as the STOXX Europe 600 falling by -1.67%. This was the worst weekly result for the European bellweather in 6 weeks as investors took some profits. Bullishness on European shares have tapered off as the China's recovery has stalled, potentially hurting certain parts of the European growth story. This week, we focus on retail sales, housing and claims data as potential drivers of global equities for the week. We also monitor the debt ceiling negotiation as a potential US default could send ripples in global markets.

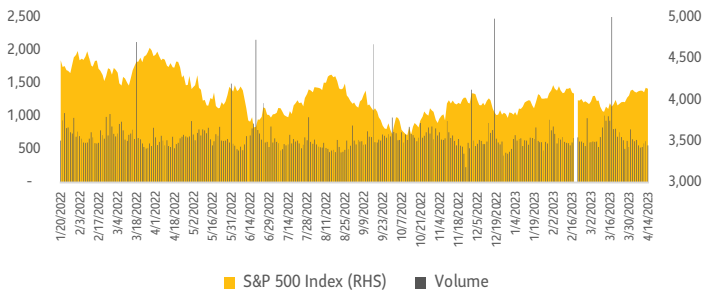
### US Treasuries traded sideways on mixed data, while RPGBs saw profit-taking in the absence of fresh catalysts

Early in the week, US Treasuries rallied as CPI data came out within expectations and jobless claims were higher than expected. However, US Treasuries gave back gains at the end of the week on the back of hawkish Fed speak and higher long-term inflation expectations in the latest University of Michigan survey. In the Philippines, local bond yields continued to move lower, but the absence of fresh catalysts encouraged some profit-taking towards the end of the week. Overall, bond yields were lower by up to 10 bps over the week.

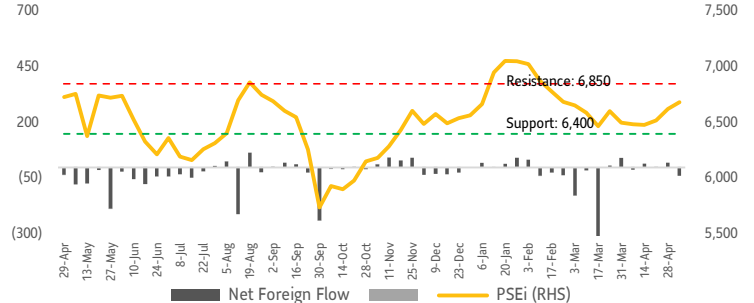
### Philippine equities suffer from MSCI announcement despite GDP beat

The PSEi was down for the week with pronounced selling pressure after results for the May MSCI rebalancing were out last Friday. Notable was MONDE's deletion and several standout downweights such as SMPH and ALI. The main equity bourse lost 107.51pts, down 1.61% w-w, to end at 6,578.15. The poor showing was despite 1Q23 Philippine GDP coming-in higher than expected at 6.4% vs 6.2%. Most sectoral indices were also down for the week, with Holding Firms the sole winner at a +0.20% w-w gain and with Mining & Oil leading losers at -3.54% w-w. Foreigners continued to be net sellers for the week at USD13.56mn vs USD42.76mn net outflow the week prior.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

So much for the stock-market climbing the proverbial wall of worry. The S&P 500 index continues to struggle in a tight range and some analysts see little prospect for a breakout until two, very big worries are in the rearview mirror.

No surprise, the culprits are the persistent worries about regional U.S. banks following the collapse of Silicon Valley Bank and Signature Bank in March and the subsequent demise of First Republic Bank, along with the latest debt-ceiling showdown in Washington that threatens to tip the federal government into a first-ever default in early June.

For now, those concerns can be described as "capping" rallies rather than "resulting in a downdraft," Anastasia Amoroso, chief investment strategist at iCapital, told MarketWatch in a phone interview.

<https://www.marketwatch.com/story/why-the-stock-market-will-struggle-to-rally-until-debt-ceiling-bank-woes-are-in-rearview-mirror-778bb054>

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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. SLIMTC expects yields to remain headline-driven and move sideways within the range.

#### PHP FIXED INCOME

BSP Monetary Board meeting is scheduled on May 18 (Thursday). It is widely expected that the BSP will pause, and market participants will await the forward guidance of BSP Governor Medalla. SLIMTC maintains its constructive outlook for local bonds as inflation trends lower and policy tightening ends.

### Local Equities

PSEi may continue to be range-bound as investors await for BSP rate decision. Trades may focus on stocks impacted by the MSCI rebalancing. Immediate support is 6,565 (50d MA) while resistance is at 6,683 (100d MA).

### 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
16-May-23	US Industrial Production (Apr)	0.40%	0.10%
17-May-23	US Housing Starts (Apr)	1.42 million	1.40 million
18-May-23	PH BSP Monetary Board Meeting	+25bps (hike)	0 bps (pause)
19-May-23	PH Balance of Payments (Apr)	\$3.453 bn	

## Our House View

### Economic Forecast (as of 15 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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