

# US Debt Ceiling Agreement Reached

## Previous Week Summary

### Tech rally extends despite uncertainty in the US debt ceiling

Market continued its frenzy surrounding AI as the NASDAQ was the runaway gainer for the week closing at (12975.69, +2.52%). Despite potential optimism on potential earnings tailwind provided by AI, other US indices delivered lackluster results. The S&P 500 inched higher (4205.45, +0.35%) while the Dow Jones Industrial Average lost (3,3093, -0.97%). In offshore markets, optimism on an agreement on the debt ceiling wasn't enough to bring it to the green. The STOXX Europe 600 declined by (461.41, -1.45%) while the Topix (2145.84, -0.73%) and CSI 300 (3850.95, -2.34%) all registered major losses. Aside from the continuation of the debt-ceiling saga, market will see major releases in US macro data (Labor Market: JOLTS job openings, unemployment rate, non-farm payrolls; Housing Data: House Price Index, Case Shiller). These data coupled with on-going developments in the tech sector are possible market catalysts that could drive market action in the next week.

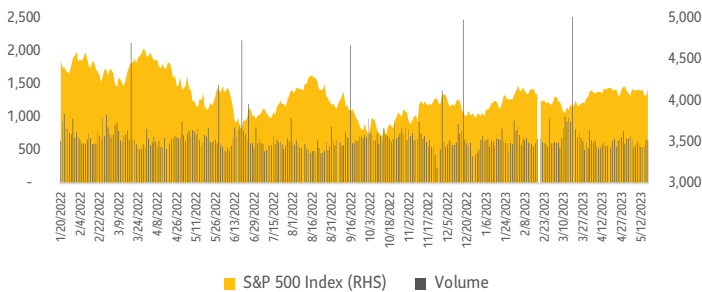
### Bonds sell-off as market participants price out rate cuts to 2024

US Treasury curve shifted higher after market participants re-assess their outlook on rate cuts following a series of strong economic data, and hawkish Fed speak. Strong risk sentiment also dampened safe haven demand. The 10Y yield jumped 17 bps and closed the week at 3.82%. In the Philippines, bond yields ended the week 10 to 20 bps higher across the curve as market participants took profits after the BSP highlighted that inflation risks remain tilted to the upside. Demand for duration has also been subdued by the higher for longer outlook for rates in the U.S.

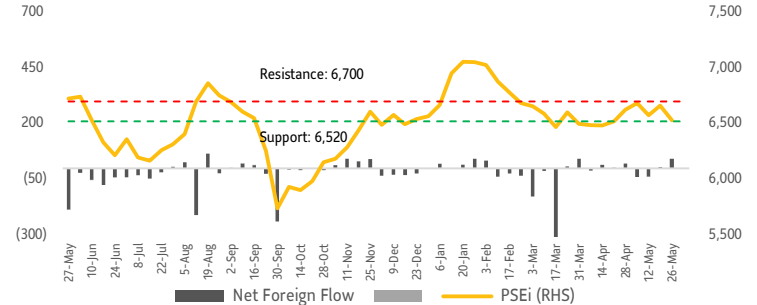
### Philippine equities fell on US debt default concerns and MSCI downgrade.

The local equity bourse fell markedly last week, losing 134.35 points (-2.02%, week-on-week) to close at 6,530.2. Optimism over the BSP's rate hike pause earlier this month gave way to profit-taking on leading names and sectors as the stalemate over US debt ceiling extension and MSCI downgrade of the Philippines worsened sentiment.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

With days to spare before a potential first-ever government default, President Joe Biden and House Speaker Kevin McCarthy reached final agreement Sunday on a deal to raise the nation's debt ceiling and worked to ensure enough support in Congress to pass the measure in the coming week.

The Democratic president and Republican speaker spoke late in the day as negotiators rushed to draft and post the bill text for review, with compromises that neither the hard-right or left flank is likely to support. Instead, the leaders are working to gather backing from the political middle as Congress hurries toward votes before a June 5 deadline to avert a damaging federal default.

"Good news," Biden declared Sunday evening at the White House.

<https://apnews.com/article/debt-limit-deal-biden-mccarthy-default-01657c829be119850cd65ab9ffb0626a>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

Key data for the week will be the NFP numbers due on Thursday. SLIMTC's updated range for the 10Y yield is 3.60% to 3.90%. As such, we think that long-end US Treasuries offer an attractive risk-reward trade at current levels. However, upside may be capped as market participants accept the higher for longer outlook.

#### PHP FIXED INCOME

Local bonds will likely trade sideways unless we see a strong demand for the FXTN 10-69 (9Y) auction tomorrow, or a reversal in the trend of US Treasuries.

### Local Equities

The PSEi succumbed to profit taking lately on global headwinds. USDPHP pair is also biased to further depreciate as DXY is also on an uptrend lately. MSCI rebal could affect asset prices next week but the 6,400 level can be an opportunity to load up especially with these types of passive outflows.

### 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 to those with emerging structural themes (Tech/AI). We remain constructive on Japan as macro recovery remains intact providing boost to earnings and multiples. EM exposure will be kept on a slight underweight with preference to Korea/Taiwan/India over China as reopening momentum fail to excite investors.

## Economic Calendar

Date	Metric	Previous	Consensus Estimate
30-May-23	PH Producer Price Index (April)	2.6%	
31-May-23	PH Bank Loan Growth (April)	10.80%	
1-Jun-23	US ADP Employment (May)	296k	180k
2-Jun-23	US Nonfarm Payroll (May)	253k	190k

## Our House View

### Economic Forecast (as of 29 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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