

# Big Week for Global Central Banks as Fed Decides

## Previous Week Summary

### Global markets supported by stronger than expected earnings.

Global equity markets (MSCI ACWI: +0.19%) moved sideways last week as strong earnings results primarily from the Financials sector was negated by cautious positioning ahead of this month's U.S. Federal Reserve meeting. The broad U.S. index (S&P 500: +0.70%) led the way while Europe (STOXX 600 USD: -0.04%) saw flat returns. Asia ex-Japan (MSCI AxAJ: -1.78%), which includes China (CSI 300 USD: -2.38%), corrected together with Japan (TOPIX USD: -1.11%) following their outperformance in the prior week. Within the U.S., the Information Technology sector (NASDAQ: -0.90%) lagged on underwhelming earnings. Despite the shaky week, MSCI ACWI is still up +2.24% in July as momentum has carried over from June's rally.

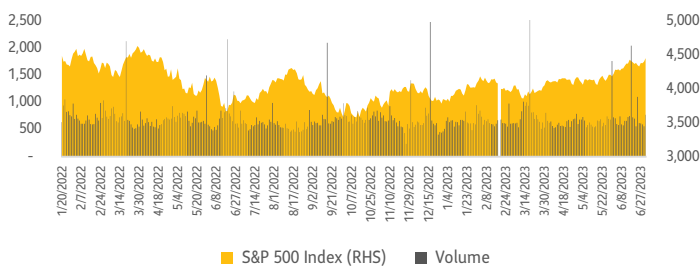
### Bonds transitioned to sideways action as market participants await fresh leads

US Treasury yields ended the week relatively unchanged ahead of this week's FOMC. Lower than expected jobless claims continue show a tight labor market, and will likely encourage the Fed to stay hawkish despite evidence of cooling inflation. The 10Y US Treasury yield closed the week at 3.83%. In the Philippines, RPGBs tracked the move of US Treasuries over the week given the absence of fresh local catalysts.

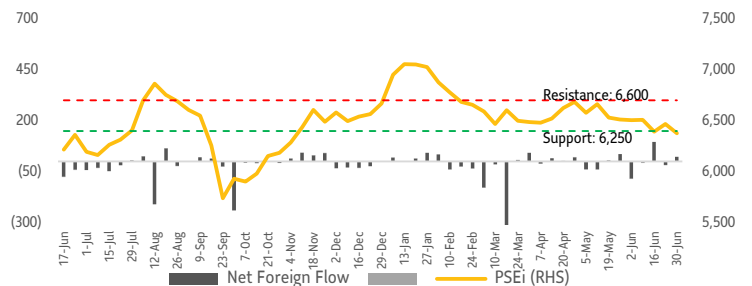
### Local equity markets up for the week ahead of 2Q earnings season

The PCOMP was up +0.34% WoW as bargain hunters picked up cyclical names and the market positioned for the 2Q earnings season. Notably, the once laggard property sector outperformed, driven by strong price action on ALI. The market also assessed robust second quarter earnings from BPI. Property (+2.53%), Mining and Oil (+0.94%), Services (+0.83%), and Financials (+0.44%) all outperformed while Industrials (-0.62%) and Holding Firms (-0.43%) underperformed. Foreigners were net buyers for the week worth PHP 981.3 Mn.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

The U.S. Federal Reserve, Bank of Japan and European Central Bank will all announce key interest rate decisions this week, with each potentially nearing a pivotal moment in their monetary policy trajectory. As Goldman Sachs strategist Michael Cahill put it in an email Sunday, "This should be a momentous week."

"The Fed is expected to deliver what could be the last hike of a cycle that has been one for the books. The ECB will likely signal that it is coming close to the end of its own cycle out of negative rates, which is a big 'mission accomplished' in its own right," Cahill, a G10 FX strategist, said.

<https://www.cnbc.com/2023/07/24/a-momentous-week-ahead-as-the-fed-the-ecb-and-the-bank-of-japan-reach-a-pivotal-point.html>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

The key event for the week will be the FOMC. Market has already priced in a 25 bp rate hike, and will wait for the Fed's guidance on future rate hikes. SLIMTC maintains its 3.70% to 4% range for the 10Y US Treasury yield.

#### PHP FIXED INCOME

BTr has already released its auction schedule for August which is focused on the belly and long-end of the curve. Market participants will likely trade defensively ahead of the FOMC and release of BSP's inflation forecast for the month of July.

### Local Equities

After the 6,400 support held firm, PCOMP broke out from its short term downtrend line and now the 6700 resistance is within striking distance. Zooming out and looking at the weekly chart, PCOMP needs to clear the psychological 7,000 level to breakout from its downtrend line dating back to 2018.

### Global Funds

SLIMTC continues to gradually increase equity exposure as investors position for a continued recovery in markets. Investments have been calibrated to those names/funds that are positioned to benefit the most from the resilient U.S. economy as the probability of a recession continues to diminish. This includes companies with exposure to emerging structural themes (Tech/AI) and earnings resilience. The team remains constructive on Japan too as the macroeconomic recovery remains intact and provides a boost to earnings and multiples. However, exposure to Emerging Markets will be kept at neutral, with a preference towards Korea, Taiwan, and India as these countries remain beneficiaries of the prevailing themes that are driving the market.

## Economic Calendar

Date	Metric	Previous	Consensus Estimate
26-Jul-23	FOMC decision on interest-rate policy	+25 bps	+25 bps
27-Jul-23	GDP (Q2 2023)	2.00%	1.70%
28-Jul-23	Residential Real Estate Price Index (Q1 2023)	7.7% YoY	
28-Jul-23	Senior Bank Loans Officers' Survey		

## Our House View

### Economic Forecast (as of 25 July 2023)

#### Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	5.00%	3.00%	7.00%
PH GDP	5.30%	4.30%	6.40%
USDPHP	54	53	55
BSP Policy Moves	Pause to cut	-1	0
BSP Policy Rate	-25 bps	-25	
Budget Deficit	-6.72%	-	-

#### US Forecasts for Year End

Metric	Midpoint	Low	High
Brent Spot Price	USD 78/bbl	USD 65/bbl	USD 90/bbl
Fed Policy Moves	0-2	0	2
Fed Policy Rate	0-50bps	0 bps	50 bps
US 10Y	3.98%	3.85%	4.10%
US Recession Probability 2023	High	-	-

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