

Mixed US Jobs Report Keeps Rates Elevated

Previous Week Summary

Markets retreat as surprise Fitch downgrade cause unease.

US Stocks fell as earnings from megacap technology stayed in line with expectations while jobs data continued to a softening in labor market. The S&P 500 retreated by (-2.40%) as treasuries rose following the surprising US credit rating downgrade by Fitch. NASDAQ also languished (-3.04%) after eight straight weeks in the green. European stocks also posted its worst week in a month driven by the same shaky sentiment. Euro STOXX 600 fell (-2.28%), led by the DAX (-3.01%) despite manufacturing orders unexpectedly jumping by the most in three years. China remained steady falling only (-0.23%) despite scant news on stimulus measures and deflationary worries. This week, focus shifts on price data (CPI, PPI) and consumer sentiment gauges (University of Michigan data). Soft inflation data and buoyant would continue to support the narrative of a possible Fed pause and a soft landing.

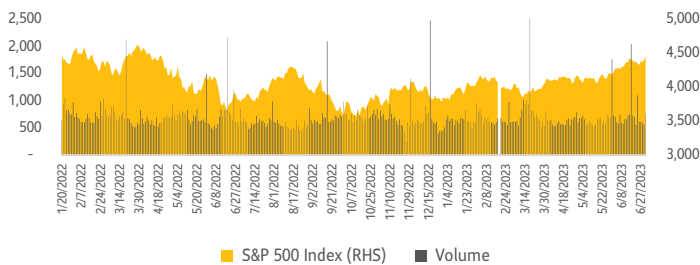
Yield curves bear steepened after the US Treasury unveiled plans to increase auction volume.

Long-end US Treasuries sold off sharply over the week after the US Treasury announced a bigger auction volume for the quarter as deficits widen. However, a lower-than-expected payrolls number and dovish statements from a couple of Fed officials helped reverse some of the losses by the end of the week. The 30Y yield closed the week 19 bps higher at 4.20%, while the 10Y yield was 9 bps higher at 4.04%. In the Philippines, the curve shifted higher as bids pulled back following the sell-off in US Treasuries. A better-than-expected headline June CPI number failed to lift sentiment.

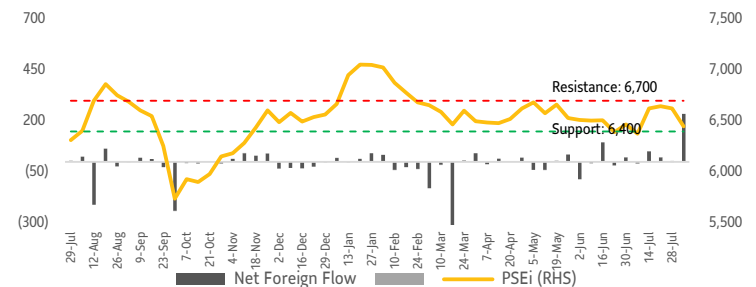
Local equities down on index rebalancing moves, 2Q23 results continue to trickle-in.

The PSEi alternated between gains and losses daily last week, only for it to end markedly in the red on index rebalancing day. The main equity bourse lost 174.42pts, down 2.63% w-w, to end at 6,450.84. Almost half of index names have reported 2Q23 earnings, with results so far close to an even split between beats, coming in-line, and misses. Almost all sectoral indices were down for the week, with Property the sole gainer at a +1.42% w-w showing and with Services at the other end with -4.48% w-w. Foreigners were net buyers for the week at USD235.54mn, vs USD5.53mn net inflow the week prior.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

The yield on the benchmark 10-year U.S. Treasury note has surged close to its highest level in more than a decade, lifted by new bets that a strong economy could support years of higher interest rates. The 10-year yield settled Friday at 4.060%, according to Tradeweb, slipping after a mixed monthly jobs report. But that was still up from 3.968% a week earlier and within touching distance of its 14-year high of 4.231% from October.

The recent climb in longer-term Treasury yields—which play a role in determining the cost of everything from mortgages to stocks—comes even as yields on shorter-term bonds have stalled.

<https://www.wsj.com/amp/articles/investors-bet-that-high-rates-will-linger-61cdaeb7>

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Bright Ideas

Fixed Income

USD FIXED INCOME

Key data for the week will be the US July CPI data. Our updated range for the 10Y yield is 4% to 4.30%. SLIMTC prefers to remain neutral duration at the moment given risks that bear steepening trend will continue.

PHP FIXED INCOME

Local bonds will likely maintain sideways action as market participants wait for forward guidance from the BSP. SLIMTC will maintain neutral duration while sentiment remains defensive.

Local Equities

PSEi may find support at 6,400 level as the local bourse continues to trade within the 6,400-6,700 range since March. Stock prices may rebound after the PSEi rebalance last 4 August as bargain hunters emerge. 2Q/1H corporate earnings have been mostly inline to ahead of in-house expectations for banks, telcos, and utilities sectors

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
8-Aug-23	PH Exports (June)	1.90%	-4.70%
10-Aug-23	PH GDP (2Q)	6.40%	6.00%
10-Aug-23	US CPI Inflation (July)	3.00%	3.30%
10-Aug-23	US Core CPI Inflation (July)	4.80%	4.80%

Our House View

Economic Forecast (as of 07 Aug 2023)

Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	5.80%	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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