

Another US Government Shutdown Looms

Previous Week Summary

Treasuries continued to rise as FOMC forecasts a possible soft landing.

Treasuries rose sharply this week which posed a major headwind for stocks after the Federal Reserve was increasingly hawkish in its last meeting. The FOMC held steady but revamped its economic projections, reflecting its increasing optimism for a soft landing. Unemployment rate was dialed back to 4.1% in 2024 while GDP was upgraded to 1.5%. Inflation was also held steady at 2.5%. Despite this improved macro picture, MSCI ACWI dropped by (-2.65%). US markets such as the S&P 500 (-2.91%) and NASDAQ (-3.61%) both lagged. Other markets in Europe and Asia also retreated. Euro STOXX 600 (-1.98%), TOPIX (-2.42%) and MSCI Asia ex Japan (-2.26%) all dropped. Investors dumped equities as the fastest pace since December as the prospect of higher-for-longer rates raises the risk of a recession. Global Equity funds suffered outflows of US\$ 16.9 Bn in September. US stock funds led the exodus, while Europe languished with its 28th week of consecutive outflows. This week, focus shifts in US job market and GDP releases. Strong results would continue to embolden the rate rally and pressure risk assets in the near term.

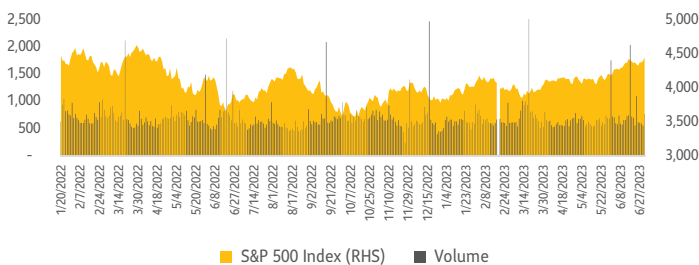
Hawkish Fed pushed bond yields to fresh cycle highs.

The Fed reiterated its higher for longer message during last week's FOMC by adjusting its 2024 and 2025 median dots higher by 50 bps. Market participants took heed of this guidance, pushing yields higher across the curve. The 10Y US Treasury touched 4.5%, before closing the week at 4.43%. In the Philippines, the BSP delivered a hawkish pause as policy rates were maintained at 6.25%, but BSP Governor Remolina stated that a rate hike for November is on the table. Local government bond yields sold off 5 to 15 bps across the curve following this development.

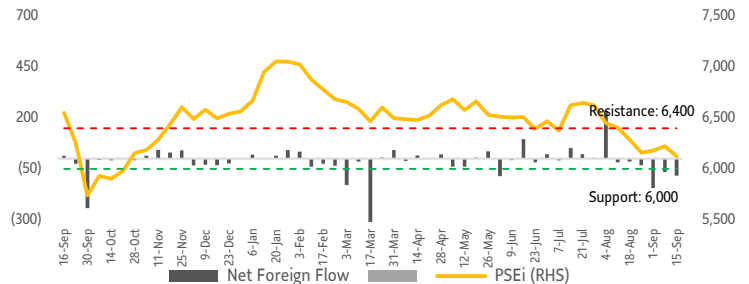
PSEi fell below 6,000 on off-cycle rebal, rebounds after BSP meeting to post flat week-on-week gain.

The PSEi was hardly changed last week, gaining a mere 16.45 points (+0.27%) to close at 6,142.79 amid a turbulent week that saw the PCOMP breach below the 6,000 key psychological support level. The PSE's off-cycle rebalancing in which AP wasn't expected to be deleted so soon after falling below the 20% minimum roiled the market. Bargain-hunting later emerged as both Fed and BSP refrained from hiking rates further.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

Congress has six days to reach a deal to fund federal government before a possible Oct. 1 shutdown, but guests on the Sunday morning talk shows said no deal appeared to be in sight.

Transportation Secretary Pete Buttigieg said House Republicans need to "come to their senses" about the looming deadline.

"This is something that can and should be prevented," he told CNN's State of the Union. "House Republicans need to come to their senses and keep the government running."

<https://www.barrons.com/amp/articles/congress-shutdown-no-deal-in-sight-f0b9699c>

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Bright Ideas

Fixed Income

USD FIXED INCOME

Several data related to inflation, consumer sentiment and GDP is on this week's calendar. SLIMTC thinks the uptrend in US Treasury yields will continue. Our updated range for the US Treasury yield is 4.45% to 4.65%.

PHP FIXED INCOME

Market participants will likely remain on the sidelines while waiting for news on inflation and the October supply calendar. Movements in US Treasuries will likely dictate local market direction in the near term.

Local Equities

Despite continued foreign selling, the local bourse looks to be well supported at 6k level. PSEi rebalancing and quarter end trading activities will influence local share prices for this week. Support remains at 6,000 while resistance is at 6,365 (50d MA).

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-Sep-23	US New Home Sales (Aug)	774k	699k
26-Sep-23	Conference Board Consumer Confidence (Sept)	106.1	105.5
29-Sep-23	PH Banl Lending Growth (Aug)	7.70%	
29-Sep-23	PH Money Supply (M3) Growth (Aug)	5.70%	

Our House View

Economic Forecast (as of 26 Sept 2023)

Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	5.80%	3.00%	7.00%
PH GDP	4.80%	3.00%	6.50%
USDPHP	54	53	55
BSP Policy Moves	Pause	0	0
BSP Policy Rate	0 bps	0	0
Budget Deficit	-6.72%	-	-

US Forecasts for Year End

Metric	Midpoint	Low	High
Brent Spot Price	USD 82/bbl	USD 70/bbl	USD 93/bbl
Fed Policy Moves	0-1	0	1
Fed Policy Rate	0-25bps	0 bps	25 bps
US 10Y	4.25%	4.00%	4.38%
US Recession Probability 2023	High	-	-

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