

US Congress Passes Bill To Avoid Shutdown...Until Nov

Previous Week Summary

Global markets continue to reprice following the FOMC's hawkish statements

U.S. Treasuries continued to rise last week in the wake of the U.S. Federal Reserve's persistent hawkish pronouncements in its September meeting. The MSCI ACWI dropped by (-0.88%) over the week as the prospect of higher rates for longer led investors to reassess their positions. U.S. markets such as the S&P 500 (-0.71%) and the NASDAQ 100 (+0.10%) outperformed the broad market along with Europe's Euro STOXX 600 (-0.63%). Meanwhile, Asian markets lagged as notable declines were seen in the TOPIX (-1.45%) and MSCI Asia ex Japan (-1.15%). The prospect of higher-for-longer from the Fed's September meeting together with the risk of a U.S. government shutdown largely influenced the declines. With the shutdown averted over the weekend, investors will now be focusing on a bevy of economic data that will be released over the week.

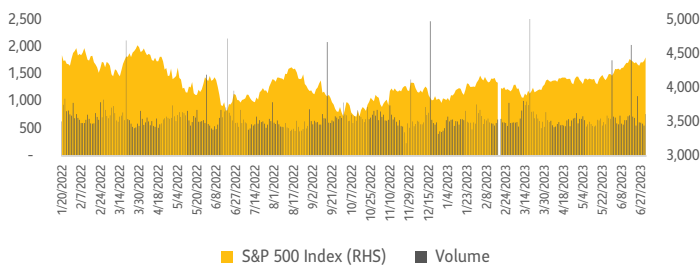
Yield curves shifted higher anew as market participants embrace higher for longer regime

The 10Y US Treasury yield pushed past the 4.5% level last week on the back of hawkish Fed, risks of US government shutdown, and robust data. In the Philippines, the BSP released its forecast for September inflation which is in the 5.30% to 6.1% range. Local government bond yields were higher across the curve as market participants stayed defensive given the hawkish guidance from BSP Governor Remolina and sell-off in US Treasuries.

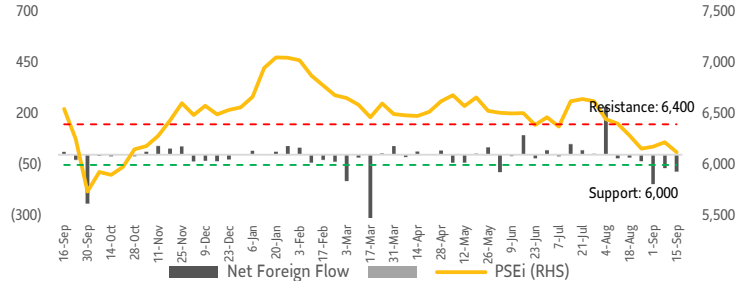
PSEi up on bargain hunting, but foreigners remained net sellers

The PSEi was up +2.91% for the week, ending at 6,321.24 as the market picked up on cheap valuations and continued to react to off-cycle index rebalancing news. Financials (+4.11%), Mining and Oil (+3.91%), and Holding Firms (+3.76%) outperformed the index, while Property (+2.38%), Services (+1.33%), and Industrials (+1.25%) were up but underperformed the index for the week. Foreigners were net sellers worth P 10.13Bn, while average daily value traded was P13.73 Bn.

S&P 500 Index



Philippine Stock Exchange Index



Economic News

The House passed a measure to extend government funding through mid-November after a coalition of Republicans and Democrats joined ranks to stave off a government shutdown, putting the matter squarely in the hands of the U.S. Senate. The House voted 335-91 for the measure, which includes \$16 billion in disaster relief but omits aid for Ukraine. That exceeded the two-thirds majority needed to clear the bill through the House, which considered the legislation under special procedures requiring a supermajority of votes.

Before the vote, House Republicans argued that the party had exhausted its options after dissident conservatives derailed an earlier plan, and said that the only choice now was to pass a bill extending funding at 2023's \$1.6 trillion annual rate through Nov. 17. That squares with major components of the approach being taken in the Senate, except that the Senate version includes an emergency \$6 billion for Ukraine.

<https://www.wsj.com/politics/policy/federal-government-shutdown-deadline-d714a1ef>

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Bright Ideas

Fixed Income

USD FIXED INCOME

US Treasury yields are still looking to establish support after breaking out from the 4.35% level. Strong data which reinforce the higher for longer outlook on rates will likely push yields to new highs. Key data for the week will be the payrolls report due on Friday.

PHP FIXED INCOME

Local government bond yields will likely trade sideways while market participants wait for the release of September inflation data on October 5. Consensus expectation is a 5.3% headline print.

Local Equities

Market sentiment on PCOMP remains weak as risk of higher inflation for 3Q and further rate hikes remain. PCOMP still in a downtrend with 6,400 resistance level holding for now.

Global Funds

SLIMTC continues to increase equity exposure as global investors continue to 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 resilient earnings. The team remains constructive on Japanese equities too as the macroeconomic recovery story remains intact. Meanwhile, exposure to Emerging Markets remains at neutral, with a preference towards Korea, Taiwan, and India as these countries are positioned to benefit from the emerging Tech/AI story.

Economic Calendar

| Date | Metric | Previous | Consensus Estimate |
|----------|---------------------------|----------|--------------------|
| 4-Oct-23 | US ADP Employment (Sept) | 177k | 150k |
| 5-Oct-23 | PH CPI Inflation (Sept) | 5.30% | 5.30% |
| 6-Oct-23 | US Nonfarm Payroll (Sept) | 187k | 165k |
| 6-Oct-23 | PH Unemployment (Sept) | 4.80% | |

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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