

# A Closer Look At US Equities in a 5% Treasury World

## Previous Week Summary

### Equities retreat as risks of Middle East conflict escalation lingers

Volatility worsened for the week as investors priced in increasing uncertainty brought about by the war in the Middle East. Global equities slumped by -3.41%. Major markets were challenged led by the US (S&P 500: -3.41%, NASDAQ: -4.31%). Big tech earnings were mixed with Tesla Inc. sinking -9% on disappointing results while Netflix spiked 12% on stellar results. Geopolitical tensions has kept the market on edge as Israel is seen to prepare for a ground assault while several high ranking US officials including President Joe Biden fly to the Middle East to diffuse tensions. Despite risks of an escalation, Treasury Yields continued its march higher with the 10 year US treasuries approaching 5%. The US economy remained strong with unemployment still at cycle lows while inflation has continued lower. This in turn has kept Fed rhetoric in check with Chairman Powell saying that the Fed will proceed carefully with its policy tightening path. The selloff that affected the US also gripped European and Asian markets as well with the STOXX Europe 600 falling -3.25% and the MSCI Asia ex Japan losing -2.13%. TOPIX remained resilient falling by only -0.97%, the least among DM markets. China which continue to battle with falling consumer confidence and an impending Country Garden default suffered another losing week with the CSI 300 dropping by -3.2%. For the week markets would continue to monitor eco data coming out of the US most notably GDP and jobless claims. Also, investors would closely keep an eye on the developments in the Middle East as a wider conflict with more regional actors involved could spook the market and dampen risk sentiment.

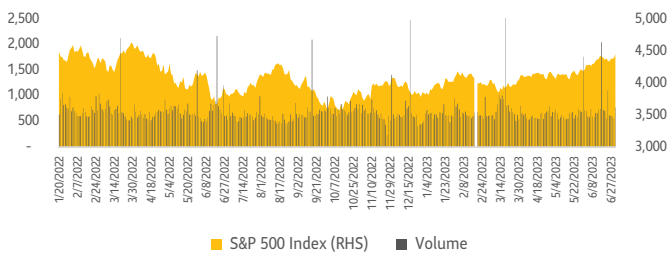
### Bonds sold off after de-escalation in the Israel-Hamas conflict, and focus shifted to higher for longer rates outlook

US Treasury yields in the long-end rose to fresh multi-year highs with market participants pricing in higher term premiums as the US economy continues to run hot. The 30Y yield broke past the 5% level and closed the week at 5.08% or 33 bps higher from the previous week. In the Philippines, a weak 7Y auction coupled with the sell-off in US Treasuries translated to more defensive market sentiment. Bid-offer spreads were 20 to 40 bps wide, and trading volume remained consistently low.

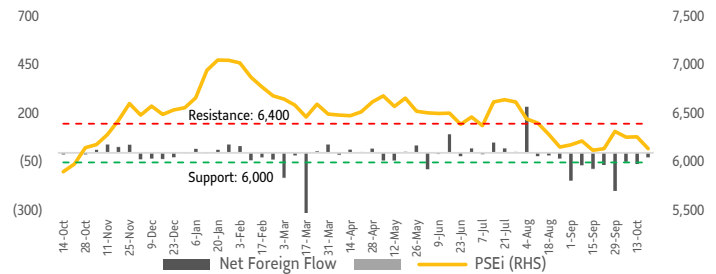
### PSEi tracks regional downturn to post its worst performance since mid-September

The PSEi registered its worst decline in about a month and a half last week, sliding 123.44 points (-1.97%) to close last week at the 6,142.90 level as the intense conflict in the Gaza strip, which already sent crude oil past \$90/Bbl and complicated further our inflation outlook, threatened to expand to the broader region.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

The rising yields on U.S. government debt, which sent the 10-year Treasury rate near 5%, a level not seen in 16 years, has posed a challenging environment for stock market investors. The 10-year Treasury ended Thursday at the highest level since 2007 just shy of 5%, before drifting back down on Friday. The 30-year Treasury rate also posted its highest close since 2007 on Thursday before pulling back. Bond market volatility is also elevated compared to historical levels. The ICE BofA MOVE Index, known as the bond market "fear gauge," in early October hit 142, its highest level since May. It stood at around 135.5 on Friday, according to FactSet data.

<https://www.marketwatch.com/story/stock-market-investors-face-reality-of-5-treasury-yields-heres-whats-next-aa9fd19e>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

With Fed officials entering a black out period ahead of the FOMC, market participants will look at this week's string of economic data releases to guide positioning. SLIMTC's updated range for the 10Y yield is 4.80% to 5%.

#### PHP FIXED INCOME

The BTr will hold a 10Y auction this week. SLIMTC expects demand to pick up for this auction as levels look attractive with indicative range of 6.75 to 7%, while supply for bonds in the long-end has been limited over the last few months. A strong auction and improved sentiment in US Treasuries could help local government bonds find support at current levels.

### Local Equities

Market sentiment remains tepid amidst lack of catalysts. Investors likely on sidelines as earnings season kicks off. Expect index to trade sideways within a tight range 6000-6400

### Global Funds

SLIMTC is maintaining its equity exposure at slight overweight 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 and exit from deflation 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
25-Oct-23	PH Budget Balance (Sept)	-PHP 133 bn	
25-Oct-23	US New Home Sales (Sept)	675k	682k
26-Oct-23	US GDP 3Q	2.10%	4.30%

## Our House View

### Economic Forecast (as of 16 Oct 2023)

#### Local Forecasts for Year End

Metric	Midpoint	Low	High
CPI Inflation	6.20%	6.00%	6.70%
PH GDP	4.80%	3.00%	6.50%
USDPHP	54	53	55
BSP Policy Moves	Possible hike	0	1
BSP Policy Rate	25 bps	0	25 bps
Budget Deficit	-6.19%	-	-

#### 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	4.44%	4.03%	4.75%
US Recession Probability 2023	High	-	-

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