

# Moody's Cuts US Ratings Outlook to Negative

## Previous Week Summary

### Stocks continue to rebound as macro releases remain favorable and monetary policy balanced.

Stocks extended their November rally amid a shift in sentiment and despite hawkish statements from the Federal Reserve members. Major equity markets ended strongly led by a rebound in US equity markets (S&P 500: +1.17%). The magnificent seven led the recovery helping the US gauge break the 4,400 mark - a major resistance (100MA). The NASDAQ powered through last week gaining +2.09% as Microsoft approached an all-time high. Macro data last week remained very favorable for the bulls as unemployment ticked higher, wages softened and labor productivity exceeded expectations. This news flow has calmed the markets and prompted investors to prepare for a year end rally. European markets ended the week flat despite the strong run in the US. The STOXX Europe 600 ended unchanged (+0.05%). Travel and leisure and healthcare sectors led gains. Global stocks recorded inflows of US\$ 8.8 Bn this November still miniscule compared to the US\$ 77.7 Bn that went to money market funds. Asian results also trailed as the TOPIX dropped by -1.01% and the MSCI Asia ex Japan faltered by -2.5%. Chinese firms also weighed down the regional gauge as Alibaba and Tencent were among the biggest drags. HK benchmarks fell the most following weak earnings from chipmakers and travel and leisure firms. Negative reports showing China has tipped back into deflation also exacerbated concerns on the fragility of the Chinese economy.

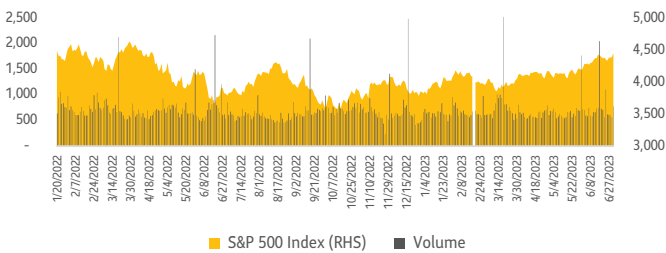
### US Treasury yield curve bear steepened, while local bonds rallied on lower inflation print

US Treasuries reversed some gains after a weak 30Y auction and hawkish comments from Chair Powell. At current levels, market participants are pricing in 3 rate cuts through 2024. In the Philippines, both headline and core inflation for the month of October surprised to the downside, primarily due to lower food prices. Headline CPI decelerated to 4.9% YoY, after accelerating by 6.1% in September. Local government bond yields rallied as much as 20 bps over the week as appetite for duration improved following the data release.

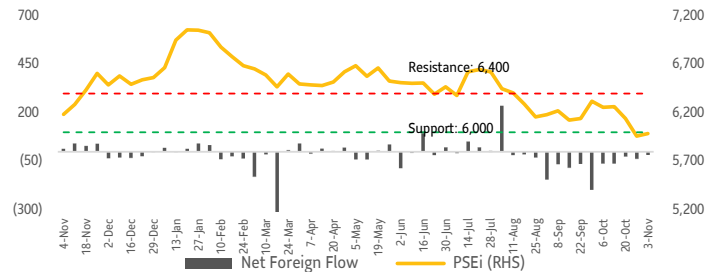
### PSEi up for a second straight week on positive macro developments and corporate earnings

The PSEi rallied for another week, gaining 83.86 points (+2.88%, week-on-week) to close last week at the 6,161.89 level. Several positive market drivers caused the positive result, including stronger than expected 3Q GDP, lower than expected October inflation and generally buoyant 3Q corporate earnings results.

**S&P 500 Index**



**Philippine Stock Exchange Index**



## Economic News

Moody's Investors Service late Friday cut its outlook on the U.S. sovereign credit rating to negative from stable, citing higher interest rates and doubts about the government's ability implement effective fiscal policies.

A negative outlook means that a rating may be cut in the future, but doesn't mean that it will be. Moody's continues to rate U.S. sovereign debt Aaa — the only one of the three major credit-rating companies to maintain a triple-A rating on the world's largest economy.

<https://www.marketwatch.com/story/moodys-cuts-outlook-on-u-s-credit-rating-to-negative-from-stable-4ede1b9b>

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## Bright Ideas

### Fixed Income

#### USD FIXED INCOME

Key data for the week will be the October US inflation figure. SLIMTC maintains its range for the 10Y yield at 4.5% to 4.8%.

#### PHP FIXED INCOME

The BSP will be holding its Monetary Board meeting this week. Market participants expect the Central Bank to keep policy rates unchanged after the better than expected October CPI print. But the tone of the BSP will likely remain hawkish given upside risks to inflation. SLIMTC will look to add duration by participating in the FXTN 10-71 auction this week.

### Local Equities

Market sentiment improved due to surprise in inflation and GDP figures. 6000 - 6400 remains the trading range.

### Global Funds

SLIMTC is maintaining its equity exposure at slight overweight as global investors continue to position for sustained global growth in 2024. Investments have been calibrated to outlets that are positioned to benefit the most from the resilient U.S. economy and aided by lower expectations of a hard-landing. 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
14-Nov-23	US CPI (Oct)	3.70%	3.30%
14-Nov-23	US Core CPI (Oct)	4.10%	4.10%
15-Nov-23	Remittance (Sept)	2.7%YoY	2.3%YoY
16-Nov-23	BSP Policy Rate	6.50%	6.50%

## 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	5.60%	6.00%	7.00%
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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