Sun Life Investment Management

Weekly Dose of S.U.N.

Statistics. Unbiased Observations. Notes.

21 November 2023

Speed of Fed Rate Cuts Debated

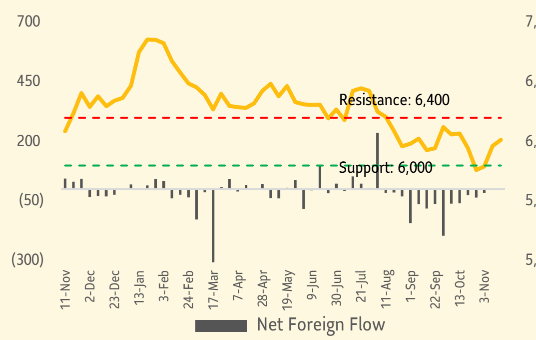
Previous Week Summary

Local Equities

PSEi marks third consecutive weekly rise as earnings season ends and the BSP pauses

The PSEi initially started the trading week soft but started posting gains Wednesday onwards as the full picture of 3Q23 earnings season was at hand and a pause on domestic rates was widely expected. The main equity bourse gained 50pts, up 0.81% w-w, to end at 6,211.89. The majority of earnings season results fell within expectations and pointed to a strong weighted 19.9% y-y core growth for the quarter. Sectoral indices were mixed for the week, with Holding Firms leading the pack with a +2.26% w-w gain and with Mining & Oil at the other end with -1.87%. Foreigners were net sellers for the week at USD2.6mn, vs USD1.62mn net inflow the week prior.

Philippine Stock Exchange Index

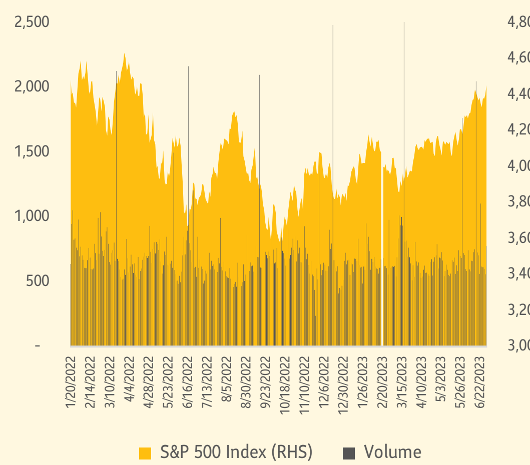


Global Equities

Stocks turbocharged after inflation miss and looming Fed pivot

Stocks were turbocharged the past week as inflation came in softer than expected fueling bets that the Federal Reserve will wind down its hiking cycle. The S&P touched the 4,500 level, ending its third straight week in the green --- its longest run since July. The tech heavy NASDAQ 100 rebounded strongly (+2.65%), as earnings continue to show respectable growth while rates continued to ease. The risk on rally pulled up other global equity indices led by the TOPIX (+2.33%), Euro STOXX 600 (+2.12%) and MSCI Asia ex Japan (+2.13%). The US dollar saw its worst week in four months while yields fell. Commodities fell led by oil on supply pressures and uncertainty on global growth. Traders priced in rate cuts as early as 2Q of the year despite the slow moderation in economic activity. For this week, focus shifts on macro releases on housing and jobless claims. Softer data such as Umich sentiment indicators is also due this week. These releases would provide clues on whether the recent rally is justified. If moderation in the numbers continue, this would support the soft landing narrative. On the other hand a surprise deterioration in the numbers might unnerve some investors.

S&P 500 Index



Fixed Income

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.

Economic News

Over the summer months, as reporters and the markets were pondering how many more times the Federal Reserve would hike interest rates this year, New York Fed President John Williams mentioned one reason the central bank might actually start cutting rates in 2024.

In an interview, Williams explained that, assuming inflation comes down, if the Fed doesn't cut interest rates at some point, then real — or adjusted-for-inflation — interest rates will go up and up and up. Other Fed officials have chimed in with similar views. Minneapolis Fed President Neel Kashkari called it simple math.

Source: https://www.marketwatch.com/amp/story/some-experts-balk-at-talk-that-fed-must-cut-rates-soon-if-inflation-keeps-coming-down-3608da3b

Sun Life Investment Management and Trust Corporation

www.slimtc.ph

11/F Sun Life Centre,
5th Avenue corner Rizal Drive
Bonifacio Global City
Taguig City 1634

Contact no.
(632) 8555 8888

Email
SLIMTC.Communications.Notice@sunlife.com

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Our House View

Economic Forecast (as of 10 November 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	-	-

Economic Calendar

Date	Metric	Previous	Consensus Estimate
20-Nov-23	PH Balance of Payments (Oct)	-$414mn	0.00%
21-Nov-23	US Existing Home Sales (Oct)	3.96m	3.9m
22-Nov-23	US Univ of Michigan Sentiment (Nov)	60.4	61.0

Bright Ideas

Fixed Income

USD Fixed Income

FOMC meeting minutes will be released this week. Market participants will likely reduce rate cut pricing should the minutes read more hawkish than expected. SLIMTC's updated range for the 10Y yield is 4.30% to 4.50%.

PHP Fixed Income

The BTr will hold a PHP 20 billion auction for the FXTN 20-23 (15Y) bond this week. Strong demand is expected for this auction as appetite for duration has picked up in recent weeks. SLIMTC remains constructive on duration, but will consider to take profit as valuations turn rich.

Local Equities

Market sentiment is slowly picking up amidst lower crude oil and stronger peso, coupled with risk-on sentiment in the US and regional markets. MSCI rebalancing which will take effect by end-Nov will influence upcoming week's trading activity. PSEi is still expected to stay within 6000 - 6400 range.

Global Funds

SLIMTC is shifting its equity exposure to 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, 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.

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