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PHILEQUITY CORNER

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Good tidings

Two weeks ago, we wrote about positive developments that are critical for a market turnaround (see *Some good news*, November 13, 2023). The good tidings that we discussed have continued to play out. The most important catalyst is the peak in interest rates which ushered a pullback in the US dollar and a turnaround in global equities. Another crucial good news is the containment of the war in Israel and the consequent drop in oil prices. Lastly, Joe Biden and Xi Jinping held a face-to-face meeting which bodes well for US-China relations.

Bond yields retreat from recent peak

Bond yields retreated even as Federal Reserve (Fed) officials made no mention of rate cuts in their latest meeting. From a 16-year high of 5.02%, the yield on the 10-year US Treasury dropped to 4.48% last week. The yield on the 10-year Philippine government bond likewise fell from a high of 7.09% to 6.27%.

Peso beats the US dollar

An amazing good news is the astounding performance of the peso. Asian currencies broadly weakened against the dollar, led by the 12.3% decline of the Japanese yen. In the table below, we show that the peso was the only Asian currency that beat the US dollar with a year-to-date return of +0.60%.

Year-to-date returns of Asian currencies

Currency	Return
Philippine peso	0.60%
Indonesian rupiah	0.02%
Singaporean dollar	-0.04%
Indian rupee	-0.77%
Thai baht	-2.48%
Taiwanese dollar	-2.86%
South Korean won	-3.12%
Chinese yuan	-3.50%
Malaysian ringgit	-6.05%
Japanese yen	-12.26%

Source: Bloomberg

The Indonesian rupiah and the Singaporean dollar were largely unchanged, posting year-to-date returns of +0.02% and -0.04%, respectively. The strength of the peso was due to the resolute defense of the 57 level, the off-cycle rate hike by the Bangko Sentral ng Pilipinas (BSP), and the hawkish statements of BSP Governor Eli Remolona. Last week, Remolona said that the BSP will remain “hawkish for a while.” He explained that the BSP is not about to ease and may even hike if inflation does not decline as expected.

Dollar tops out

The decline of interest rates caused the US dollar index (DXY) to fall by 3.7% to 103.42 last week from its recent high of 107.35 at the start of October. Meanwhile, the euro is up 4.5% from its recent bottom.

Hostage exchange between Israel and Hamas

In our recent article, we said that the war in Israel has been contained and a regional escalation has been averted. Last week, Israel and Hamas agreed to a temporary ceasefire to facilitate a hostage/prisoner exchange. The risk of a full-blown war in the Middle East seems less likely as signs of potential de-escalation appear. This caused Brent crude to fall to $80/bbl from a high of $95/bbl in September. The drop in crude oil prices should help bring down inflation.

Improving US-China relations

Last November 15, US President Joe Biden hosted a summit with Chinese President Xi Jinping. Biden said that both countries have to ensure “that competition does not veer into conflict.” Xi said, “For two large countries like China and the US, turning their backs on each other is not an option.” Both leaders agreed to resume high-level military communication and direct dialogue between the two countries. A de-escalation of the US-China cold war would support greater cooperation in business between American and Chinese companies. Various US companies said that there has been a drastic positive change in the demeanor of their Chinese counterparts following the Biden-Xi summit.

Something stupid

Though positive catalysts are materializing for financial markets, there are also risks. After a cordial meeting that is expected to lead to several agreements, Biden made a slip-up. To paraphrase an iconic song “Something Stupid” by Frank and Nancy Sinatra… and then Biden goes and spoils it all by saying something stupid like Xi is a dictator. Maybe it is difficult to completely erase the ingrained animosity and distrust. Though the US and China are trying to thaw their cold war, the encounters and territorial disputes between the Philippines and China may cause tensions to flare up. An emerging risk for the whole world is the recent rise of strongmen with controversial rhetoric, anti-immigrant policies, and erratic personalities. We saw this in the recent election wins in the Netherlands and Argentina. The continuing strength of far-right leaders such as Putin, Xi, Italy’s Meloni, Turkey’s Erdogan, Netherlands’ Wilders, Argentina’s Milei, and El Salvador’s Bukele is an indication of the current sentiment of the populace which may be signaling the reelection of Trump next year.

A broader rally is underway

The S&P 500 posted a month-to-date return of 9.4% and is on-track to deliver one of its best November performances. The initial rally was led by the Magnificent 7 and mega-tech stocks, but this has broadened to include other sectors, midcaps, and small caps. Other developed markets and emerging markets followed suit. The volatility index (VIX) eased back to 2020 pre-pandemic lows, a sign of growing investor confidence and market strength. On the other hand, the Philippines has experienced lethargic trading amid low market volume. As we have seen in the past, total disinterest is a typical sign of a bottoming market. Last November 13, daily trading volume in the PSEi dropped to P1.3b, the lowest since March 2009. Nonetheless, a continued broadening of the market rally should eventually lift all boats and include smaller markets like the Philippines.

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