

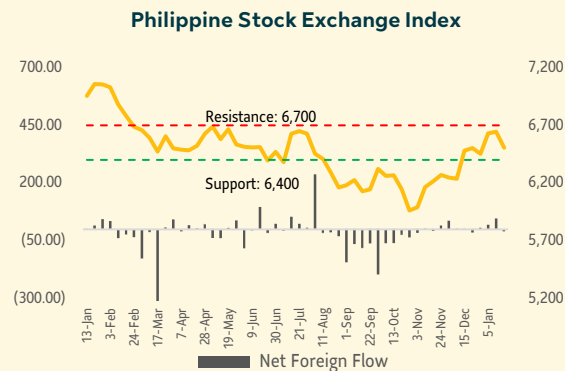
Moody's Ratings: Negative on Asian Bonds Due to Weak China

Previous Week Summary

Local Equities

PSEi gives into profit taking after touching seven-month high

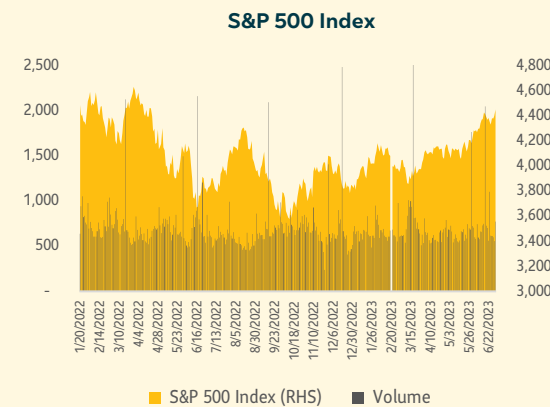
The PSEi gave into profit taking after hitting its seven-month high of 6,680 last Monday. The main equity bourse lost 139.64pts, down 2.10% w-w, to end at 6,503.54. Investors started considering the possibility that rate cuts may come later than expected given strong retail sales from the US and the spectre of El Nino locally. All sectoral indices were down for the week, with Mining & Oil leading losses at a -3.14% w-w fall. Foreigners were net sellers for the week at USD8.9mn, vs weekly net inflows since the start of the year.



Global Equities

Markets end the week at all time highs on economic resilience and potential Fed pivot

Markets ended the week on a positive note with US markets closing at all time-highs on the back of resilient economic data and lingering speculation that the Federal Reserve will cut rates this year. The prospect of a resilient US economy, lower inflation and a potential FED pivot drove the S&P 500 to all time highs. Technology led the way surging to a record for the first time in two years. US indices powered forward with the S&P 500 up 1.56% and NASDAQ 100 2.87% for the week. Semiconductor stocks were also big winners as guidance from TSMC showed that the global economy is doing well. Despite the positive sentiment, other markets failed to advance. The TOPIX lost -0.34% while MSCI Asia ex Japan -1.05% and CSI 300 -1.03% were the laggards. This week, US PMI data, GDP and PCE orders would be released and would be closely monitored by the market.



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Fixed Income

Strong economic data and supply concerns pushed bond yields up

US Treasury curve bull steepened over the week as data releases show continued economic expansion and Fed members pushed back on rate cuts. The 10Y yield rose 18 bps to 4.126% over the week. In the Philippines, the announcement of a Retail Treasury Bond (RTB) issuance within the first quarter and a Dutch auction for this week's 10Y issuance led market participants to reduce exposure in the belly to long-end of the curve.

Economic News

Moody's Investors Service has a negative outlook for sovereign creditworthiness in Asia-Pacific this year, due to China's slower economic growth as well as tight funding and geopolitical risks. China's rebound from the Covid-19 pandemic wasn't as fast as several economists had expected at the start of 2023. The country's GDP for the last three months of 2023 rose by 5.2%, according to the National Bureau of Statistics, missing estimates of 5.3% in a Reuters poll. In a Jan. 15 report, Moody's predicted China's real GDP growth would slow to 4% this year and next, from an average of 6% between 2014 and 2023. The credit rating agency said the slowdown in China's growth "significantly influences" APAC economies because of its strong integration in global supply chains. Goldman Sachs and Morgan Stanley, among other major international investment banks, predict China's economy to grow at a slower pace of 4.6% in 2024, down from 5.2% expected for 2023.

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Our House View

Economic Forecast (as of 16 December 2023)

| Local Forecasts for 2024 | | | | US Forecasts for 2024 | | | |
|--------------------------|----------|------|------|-------------------------------|----------------|--------|---------|
| Metric | Midpoint | Low | High | Metric | Midpoint | Low | High |
| CPI Inflation | 3.80% | | | Brent Spot Price | USD 83/bbl | | |
| PH GDP | 6.00% | | | Fed Policy Cuts | 3-4 | 3 | 4 |
| USDPHP | 53.5 | 53 | 55 | Fed Policy Change | -75 to -100bps | -75bps | -100bps |
| BSP Policy Moves | Rate cut | 3 | 4 | US 10Y | 3.19% | 2.88% | 4.50% |
| BSP Policy Rate | -100bps | -100 | -75 | US Recession Probability 2024 | High | - | - |
| Budget Deficit | -6.19% | - | - | | | | |

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Economic Calendar

| Date | Metric | Previous | Consensus Estimate |
|-----------|-------------------------|-----------|--------------------|
| 25-Jan-24 | US GDP (4Q) | 4.90% | 2.00% |
| 25-Jan-24 | US New Home Sales (Dec) | 590k | 649k |
| 26-Jan-24 | PH Trade Balance (Dec) | -\$4.69bn | -\$4.5bn |
| 31-Jan-24 | PH GDP (2023) | 7.60% | 5.50% |

Bright Ideas

Fixed Income

USD Fixed Income

Various economic data are due for release this week, while Fed members enter a blackout period ahead of this month's FOMC. SLIMTC's updated range for the 10Y US Treasury yield is 4% to 4.3%.

PHP Fixed Income

The BTr will issue a new 10Y bond this week. SLIMTC expects the issuance to receive healthy interest, but we think market participants will remain defensive while waiting for the RTB issuance.

Local Equities

PCOMP likely to range-trade within 6,400 to 6,700 while waiting for further market catalysts. Interesting to monitor foreign flows in the coming weeks. Though still seeing net foreign inflow YTD (+63m), we saw some reversal of flows during the past week.

Global Funds

SLIMTC maintains its overweight in global equities as investors position for a reacceleration of global growth in 2024. Investments have been selected to position towards those that benefit the most from the resilient U.S. economy and earnings expansion. This includes companies with exposure to secular tailwinds (AI/Tech), strong margins and balance sheets. The team also favors Japanese equities 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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