

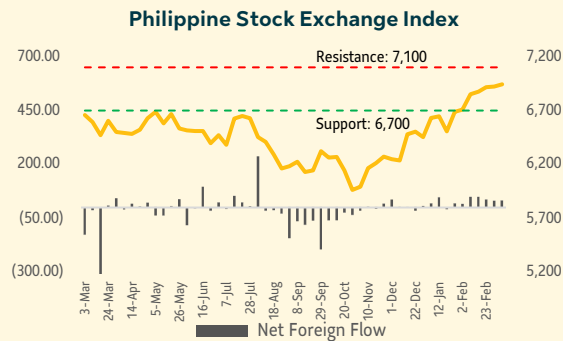
Japan Avoids Recession With Half-Percent Q4 Growth

Previous Week Summary

Local Equities

PSEi shakes off bad inflation print, manages seventh

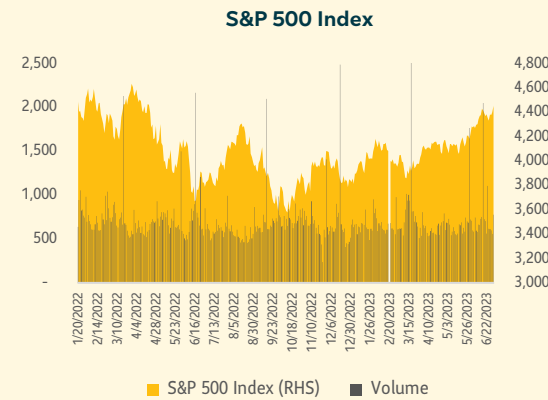
The PSEi bucked a three-day mid-week decline spurred by higher-than-expected inflation last Friday to keep its weekly gain trend alive. The main equity bourse gained 22.62pts, up 0.33% w-w, to end at 6,942.21. February inflation was reported at 3.4% last Tuesday, above the 3% expectation, and pressured equities for most of the week. Most sectoral indices were in the red for the week, with Industrials leading the decline at -2.36% w-w while Services managed +3.71% w-w at the other end. Foreigners were net buyers for the week at USD31.4mn, vs USD22.5mn net buying the week prior.



Global Equities

Global stocks continue their historic run despite tech profit taking.

Global stocks delivered another positive return, rising by +0.61%. US markets took a pause as the S&P 500 (-0.11%) and NASDAQ 100 consolidated (-1.13%). Technology firms succumbed to some profit taking as semiconductor bellwether Nvidia pulled back. European and Japanese markets continued to rally as the Euro STOXX 600 rose 2.08%. Japanese indices like the Nikkei 225 (+1.30%) and the TOPIX (+3.15%) both drifted higher despite more hawkish statements from the BOJ and GDP figures largely coming in weaker than expected. This week would be a pivotal for global markets with the US releasing CPI data. A softer figure would likely trigger more positive sentiment and possibly a continuation of the equity rally we've seen. On the other hand, a hotter number would put pressure on the Fed and would like pose a headwind for equity multiples.



Fixed Income

US Treasuries rally on weak data, while local government bonds continue to trade sideways

US Treasury yield curve shifted lower as weak economic activity data and neutral message of Fed Chair Powell encouraged market participants to price in a rate cut by June. In the Philippines, higher than expected February headline inflation translated to defensive sentiment in the bond market during the first half of the week. Nonetheless, the rally in US Treasuries helped local government bonds recover and end the week relatively unchanged.

Economic News

Japan averted a technical recession as revised official data on Monday showed the economy returned to growth in the October-December period last year, bolstered by strong capital expenditure. The upward revisions though were weaker than estimated, with private consumption remaining weak. Expectations are rising that the Bank of Japan may normalize interest rates as early as its March 18-19 meeting amid signs of robust wage gains at this year's Shunto spring wage negotiations between unions and employers. Japan's gross domestic product expanded 0.4% in the fourth quarter compared with a year earlier, weaker than consensus expectations for 1.1% growth in a Reuters poll. Provisional data last month had showed GDP contracting 0.4%. The economy had contracted 3.3% in the July-September period. Japan's fourth-quarter GDP also expanded 0.1% from the previous three months, weaker than the median forecast for 0.3% growth in a Reuters poll. Provisional data had showed a 0.1% contraction. The economy had shrunk 0.8% in the third quarter from the preceding one. "The upward revision to GDP growth in the second estimate released today ... was smaller than most had anticipated," Capital Economics head of Asia-Pacific Marcel Thieliant wrote in a client note.

<https://www.cnn.com/2024/03/11/japan-revised-final-4q-gdp-2023.html>

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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
12-Mar-24	US CPI (Feb)	3.10%	3.10%
15-Mar-24	US Industrial Production MoM (Feb)	-0.10%	0.00%
15-Mar-24	PH Remittance (Jan)	\$3.28 bn	\$2.74 bn
15-Mar-24	PH Fiscal Budget (Jan)	-P401 bn	

Bright Ideas

Fixed Income

USD Fixed Income

February inflation data is due within the week. US Treasuries have rallied over the past 2 weeks that a stronger than expected inflation print could lead to some correction. We remain buyers of US Treasuries on dips.

PHP Fixed Income

The BTr will re-issue FXTN 10-72 (10Y) this week. Market sentiment is slowly improving and upcoming bond maturities can be supportive of yields. We continue to see value in the 5Y tenor bucket given flat yield curve and supply risk in the long-end.

Local Equities

Sentiment on PCOMP remains positive but may see some sideways movement after strong run up. Trading range remains at 6,700-7,100.

Global Funds

Active mandates locked in gains from overweight asset allocation call. Investments are positioned towards outlets that look to benefit the most from the resilient U.S. economy and corporate earnings. 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 selective, with a preference towards Taiwan and India as these countries are positioned to benefit from a structural Tech/AI story.

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