

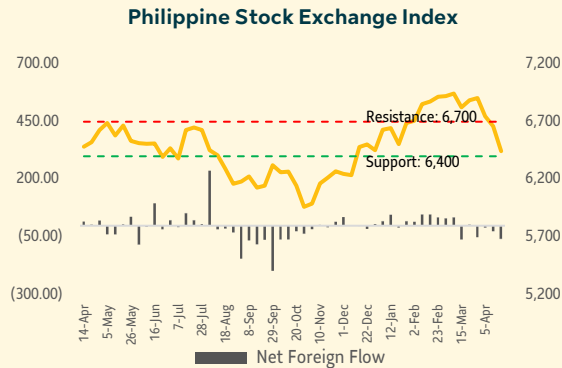
S&P 500 Headed For Worst Month Since 2022, Yields Rise

Previous Week Summary

Local Equities

PSEi continues downtrend for 3rd week, currency weakness unresponsive

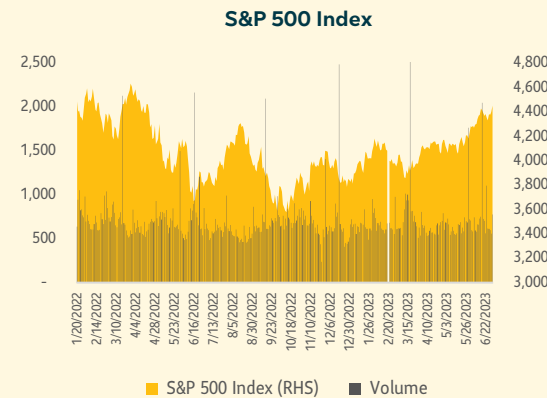
The PSEi showed some signs of recovery last week though this was derailed when Israel retaliated against Iran. The main equity bourse lost 216.39pts, down 3.25% w-w, to end at 6,443.00. Oil prices spiked and the PHP weakened to its lowest level in more than a year after the attack due to inflation concerns. All sectoral indices were down, with Property registering the deepest decline at -5.76% w-w. Foreigners continued to be net sellers at USD57mn for the week.



Global Equities

Global equities dragged by profit taking on mega cap tech stocks

Global equities was dragged down by a selloff in mega cap tech as investors took profit before their earnings results to be released this week. Global equities as represented by the MSCI ACWI fell 1.92%. Losses were driven by selloffs in developed markets. US indices dropped with both the S&P 500 and Nasdaq posting -1.86%, -3.79% respectively. Weakness was also evident in other market leaders such as Japan. The TOPIX lost -4.61% as the selloff worsened due to increasing geopolitical risk. This week promises to be a pivotal week for the markets with earnings season in full swing in the US, Iran-Israel tensions and the PCE deflator to be released. We expect markets to be volatile and hyper sensitive as further conflict escalation and miss in earnings could trigger another wave of selling.



Fixed Income

Hawkish comments from Central Banks, strong data continue to push yields higher

US Treasury curve shifted higher anew as strong data releases support a higher for longer outlook. In addition, hawkish comments from Fed Chair Powell and other Fed members also contributed to the sell-off. The 10Y yield closed the week 10 bps higher at 4.62%. In the Philippines, local government bond yields rose 15 to 30 bps across the curve over the week. The weak sentiment was aggravated by BSP Chief Remolona's hawkish comments that rate cuts could be pushed back to 2025 given upside risks to inflation.

Economic News

The U.S. stock market's bull run has hit a rough patch, as bond yields spiked this month on fears that a robust economy is helping to keep inflationary pressures alive. The S&P 500 SPX is on pace for its biggest monthly drop since December 2022, with April's pullback erasing about half the gains the U.S. stock market had booked this year by the end of March. The index has slumped 5.5% this month through Friday, lowering its climb in 2024 to 4.1%. Still, the S&P 500 is just 5.5% from its record closing peak on March 28. Equities investors got it right this year that economic growth remained strong in the U.S., but the problem now is that the view is already priced into stocks — and that yields in bond market were left to catch up, according to Bob Elliott, chief executive officer and chief investment officer of Unlimited Funds.

This year's rise in yields in the Treasury bond market accelerated in April, rattling U.S. stocks. But as Elliott sees it, long-term Treasury rates may need to climb even higher to cool demand in the economy, before the Federal Reserve gains enough confidence that inflation is falling durably towards its 2% target. "Financial conditions, pretty much any way you slice it, are easy today," Elliott said in a phone interview. "All indications are this first-quarter GDP number is going to be pretty strong."

<https://www.marketwatch.com/story/s-p-500-heads-for-worst-month-since-2022-as-bond-yields-jump-on-inflation-fears-7cab9b79?mod=home-page>

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Our House View

Economic Forecast (as of 15 April 2024)

Local Forecasts for 2024				US Forecasts for 2024			
Metric	Midpoint	Low	High	Metric	Midpoint	Low	High
CPI Inflation	3.80%			Brent Spot Price	USD 88/bbl	80	95
PH GDP	6.00%			Fed Policy Cuts	2-4	2	4
USDPHP	55	54	56	Fed Policy Change	-50 to -100bps	-50bps	-100bps
BSP Policy Moves	Rate cut	2	4	US 10Y	3.79%	3.35%	4.19%
BSP Policy Rate	-100bps	-50	-100	US Recession Probability 2024	High	-	-
Budget Deficit	-6.19%	-	-				

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Economic Calendar

Date	Metric	Previous	Consensus Estimate
23-Apr-24	US PMI Manufacturing (Apr)	51.9	52.0
24-Apr-24	PH Budget Balance (Mar)	-P164.7bn	
25-Apr-24	US 1Q GDP	3.40%	2.50%

Bright Ideas

Fixed Income

USD Fixed Income

PCE inflation is the key data due this week. SLIMTC maintains its 4.40% to 4.70% range for the 10Y US Treasury yield. Tensions in the Middle East could spur safe haven demand and provide a support to yields, but market has so far remained focused on the policy outlook.

PHP Fixed Income

FXTN 20-26 (20Y) will be re-issued in this week's auction. The BTr rejected the 15Y auction last week where average yield will be close to 7% if awarded. This week's auction will provide further color on market appetite for duration and BTr's willingness to award at current levels. SLIMTC remains inclined to add duration opportunistically via auctions.

Local Equities

Sentiment on PCOMP remains weak as it trades near the support of 6400. Developments in geopolitical issues will remain a key driver. Trading range remains at 6,400-6,700.

Global Funds

The active mandates have locked in gains from the overweight asset allocation call in equities. Investments are positioned towards outlets that benefit the most from the resilient U.S. economy and strong corporate earnings. This includes companies with exposure to secular tailwinds (AI/Tech), strong margins, and healthy balance sheets. The team also favors Japanese equities as the macroeconomic situation is conducive for equity investments. Meanwhile, portfolio exposure to Emerging Markets remains selective, with a preference towards Taiwan and India as these countries are positioned to benefit from the structural Tech/AI story.

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