**MARKET OUTLOOK: CAUTIOUS** 

**SECTOR PICKS:** CONSUMER NAMES, STOCKS WHICH BEAT EARNINGS FORECASTS, COMPANIES WHICH DERIVE A LARGE PORTION OF THEIR INCOME FROM FOREIGN SOURCES

TECHNICAL O CURRORT AT COME FROM FOREIGN SOURCES

TECHNICALS: SUPPORT AT 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 6800

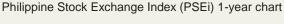
The adage "Don't fight the Fed" cuts both ways. While the Fed's 75-bp hike was well telegraphed to the markets, the increasing level of hawkishness was not. Based on the newly released dot plot, the terminal interest rate is now 4.4% by end-2022 and 4.6% by 2023. Moreover, Fed voting members are not anticipating a rate cut until 2024.

Fed Chairman Jerome Powell also recognized the probability of triggering a recession, saying "No one knows whether this process will lead to a recession or, if so, how significant that recession will be." Taken together, this spooked investors and sent the dollar skyrocketing, at the expense of equitiesm bonds, and other currencies.

The Japanese yen hit multi-decade lows and the euro stayed firmly below parity. Yields on 2-year US Treasuries broke 4% and 10-year Philippine yields are once again close to 7%. The S&P 500 also shed 1.7% in one day as stocks whipsawed but ended the day deeply in the negative.

As a response to this, rising inflation and a weakening peso, the BSP decided to raise interest rates by 50 bps. Unfortunately, this was not hawkish enough to reverse the sharp depreciation of the peso, which is now down 12.7% YTD against the dollar. The increase in the terminal interest rate of the US also indicates that the interest rate differential with the Philippines will narrow even further, unless the BSP increases interest rates significantly.

Barring that or a Fed pivot, we expect more capital outflows which will be significantly detrimental to both Philippine equities and the peso. The hawkishness of the Fed prompts us to revert to a cautious stance as we reassess our forecasts and outlook.





## TRADING STRATEGY



Higher terminal interest rates for the US led to weakness not just for equity prices but for currencies as well. In fact, the Philippine peso has hit new record lows. In this light, we are reviewing our outlook and reverting to a cautious stance.

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