

EQUITY

A breakout beyond the 7000 level for the PSEi has proven to be elusive. Despite multiple attempts in March, this resistance level remains formidable. Instead, the massive rally which started in November 2023 came to an end as the PSEi lost 0.6% in March.

After hitting a plateau, inflation is slowly creeping up again as both rice and oil prices started to move higher. The El Nino phenomenon is expected to taper off in the middle of the year but it will still impact harvests in 1H24. Fears of an escalating conflict in the Middle East and a rebound in China manufacturing data sent oil prices higher towards the end of March. With inflation levels as one of the main factors behind central bank policy, stubbornly high CPI will delay any monetary policy easing.

With inflation biting into people's wallets, GDP growth was downgraded to 6% from the previous range of 6.5%-7.5%. Interest rates are also likely to stay higher for longer. With the US economy and labor market still running hot, especially relative to other developed economies, there is a view that the US Federal Reserve may not be able to stick to its previous forecast of 3 rate cuts this year. This sent the US dollar higher against almost every currency. Not surprisingly, the PhP broke the 56/\$ level.

The end of our 4-month stock market rally coincided with the drying up of foreign inflows. In March alone, foreign funds sold \$45M worth of Philippine stocks. More than 90% of this was due to rebalancing exercises, hence the minimal drop in for the benchmark index. We note that broad-based buying has given way to stockpicking. Domestic news flow is likely to be quiet in April as most investors await 1Q24 corporate earnings in May.

**MIGUEL AGARAO**

Fund Manager (Equities)

FIXED INCOME

March was another relatively quiet month, as markets are all waiting to see what the Fed will do, but all indications are for the Fed to remain cautious and not move on cutting rates until June. Jerome Powell and other Fed members repeated this view on many occasions, though we did get confirmation from Powell that it would be appropriate to cut sometime this year at least. Meanwhile, markets are watching the price of oil, as the red sea conflict and OPEC cuts have kept oil rising to around 80/bbl.

In the Philippines, February CPI comes in at 3.4% vs 3.0% expected and 2.8 in January, the first unexpected rise we have seen in awhile, probably on the back of higher food prices from El Nino. Rice prices also remain at all time highs. Meanwhile, in local bonds, we see the new 5y RTB trading relatively flat on lack of leads, slightly higher than its coupon at 6.255. There was also a 7yr auction which averaged 6.27. Yield curve on the local bonds is extremely flat with the 5yr all the way up to the 15yr seeing yields of around 6.25. The USDPHP cools to below 56 briefly but remains to also play in a range of around 55.8 to 56.3.

In the US, equity markets continue to make all time highs, powered by NVIDIA and tech stocks. 10y USTs touch a low of around 4.1 but eventually end higher at 4.3 as strong economic data such as the PPI and wholesale prices surprise to the upside. The Fed decides to stay put at its interest rate setting meeting, as widely expected.



TIMOTHY SY

Fund Manager (Fixed Income)