

EQUITY

The bloodbath continues as the PSEi fell for its third straight month. By losing 4% in May alone, the PSEi wiped out all of its hard-earned YTD gains.

1Q24 corporate earnings were reported in May, with index constituents growing their earnings by 9% YoY. While most companies beat forecasts, the weakness in the property sector and domestic consumption was evident. MSCI rebalancing at the end of the month also led to sharp price dislocations for different stocks, which in turn encouraged portfolio reallocation.

On top of that, the Philippine peso depreciated significantly against the US dollar. In May alone, the currency weakened from 57.10 to 58.70 to the US dollar. A stronger dollar and less hawkish BSP policy statements were factors behind this move. Since Philippine stock price performance is highly correlated with the peso-dollar exchange rate, the PSEi's weakness was not a complete surprise.

On the bright side, inflation is slowing and will likely fall within the BSP's target range of 2-4% before yearend. After a brief spike in April, oil prices have fallen 15%. The end of the El Niño phenomenon will also lead to higher agricultural output in 2H24. The prospect of interest rate cuts should also serve to stimulate growth as borrowing costs fall.

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**MAY
2024**

FIXED INCOME

While April saw a surprise in hawkishness from the Fed due to rising fears on inflation again, May saw some calmness reenter markets as data that came out was more benign than the previous month. Markets are now pricing in a delayed cut by the Fed, but this is at least less extreme than people actually expecting another rate hike.

In the Philippines, March CPI comes in at 3.8, lower than 4.1 expected, though still trending upwards from last month 3.7. Food prices, especially rice continues to be the culprit. Local bonds though trend lower overall as they follow USTs downwards due to the Fed assuaging fears of a rate hike, and some jobs data coming out that was weaker than expected. We also had 1q GDP lower than expected at 5.7 vs 5.9. In its MB meeting, BSP keeps rates at 6.5 as widely expected, and adjusts inflation forecasts to 3.8 for 2024. What was surprising is that Gov. Remolona states that the BSP could cut rates as early as August, causing a rally in local bonds. New 5y RTB518 bought near 6.4 while 10y 1072 was last traded around 6.7. However the BSPs dovish statements has the USDPHP depreciate considerably, with the pair breaching the 58 handle to 58.60.

In the US, 10y UST falls to 4.4 on softer data, with CPI lower than expected and jobs data coming in as expected. US equity markets continue to reach all-time highs with the Dow at 40k and the NASDAQ at 16k.



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