

## EQUITY

The PSEi lost 0.3% in June - its 4th straight losing month. Still, the benchmark index managed to stay above the 6400 support level. However, the practically flat performance in June belies a very volatile month.

Trading volume continues to dry up, thus FTSE rebalancing in the 3rd week of June caused a sharp plunge for index constituents with the PSEi losing 2.9% in just one day - its worst one-day move in more than one and a half years. After closing at 6158, bargain hunters lifted the PSEi back up in the coming week.

May inflation came in at 3.9% - not quite where the BSP wants it but showing clear signs of deceleration. Moreover, EO 62 lowering rice import tariffs from 35% to 15% will reduce inflation by more than one percentage point. This reinforces the BSP's "less hawkish" stance. Though the policy rate remained unchanged in June, BSP Governor Eli Remolona, Jr. practically telegraphed a rate cut in August. This contrasts with the US Federal Reserve's move to keep rates on hold for a bit longer. Markets seemed to have largely priced in the BSP's move with the Philippine peso practically flat in June.

Domestic politics also made headlines as Vice President Sara Duterte resigned from her positions as Secretary of the Department of Education and Vice Chairperson of the National Task Force to End Local Communist Armed Conflict.



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# FIXED INCOME

June has yields mostly stuck in a trading range as data coming out of the US sees sticky inflation but also shows jobs are starting to cool. Meanwhile BSP seems very keen to cut sooner rather than later as it sees inflationary pressures locally start to come down. Bigger news may be on the political front, as we witnessed the first US presidential debate between Trump and Biden, with consensus being that Biden may be in trouble. Also we have ever escalation tensions with China in the WPS.

In the Philippines, April CPI comes in at 3.9, lower than 4.0 expected, and a bit higher than last month 3.8. There is news already that an EO to reduce rice tariffs will be passed soon, which would have a significant impact on inflation. This may be why BSP seems to have been telegraphing that it will most likely cut as early as August. In its MB meeting, BSP keeps rates at 6.5 as widely expected, and reiterates that it may cut sooner rather than later. However it says that 150bp cuts in 2 years may be a bit too aggressive. The dovish stance of the BSP has local bonds being bought, with the 10y 1072 now inching below 6.6 to around 6.58 and the 5y RTB 518 also breaching 6.4 to 6.38.

In the US, 10y UST ranges between 6.5 and 6.3, falling to around 4.33 on the back of higher jobs vacancies. But this quickly bounces back to 4.4 as NFP jobs still shows surprising job growth. Then CPI data finally shows some cooling, coming in at 3.3 or flat month on month. There were also comments from Jerome Powell that they now only expect 1 cut this year instead of 2, but they see modest improvement on the inflation target. Eventually 10y UST finishes the month around 4.35, right in the middle of the tight range.



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