

EQUITY

The PSEi's losing streak is finally over as it roared back in July. The benchmark index gained 3.2% to end the month at 6,619.

Price pressure continues to abate as Philippine June inflation came in at 3.7%. This makes an interest rate cut in August even more likely. We see a similar trend in the US where CPI was actually down 0.1% month-on-month - the first such decline since the COVID era. This also seals a rate cut by the Fed in September. The Fed's moves will have a large impact on the movement of equities, bonds and currencies.

Unfortunately, the rally in US equities, especially the Magnificent 7, seems to have ground to a halt. After hitting a fresh record high in July, US equity indices started to correct as tech heavyweights succumbed to excessive expectations and rotation. Money flowed out of the big winners such as tech into neglected names such as cyclical sectors and value names. Emerging markets, including the Philippines, were also beneficiaries of this rotation hence the strong performance in July.

On the political front, President Joe Biden formally withdrew his candidacy and endorsed Vice President Kamala Harris as the Democratic Party's presidential nominee. Recent surveys indicate that not only does Harris have a higher chance to win than Biden, but that she may actually have a good shot at beating ex-President Donald Trump. Given how different their policy directions are, whoever wins will have a significant impact on markets.

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July saw a rally in yields as softer data coming out the US has markets anticipating a 100% chance that the Fed would cut rates in September rather than November. Here in the Philippines, a wage hike goes into effect but this coincides with a reduction in rice tariffs. Meanwhile, a disastrous US presidential debate has Biden drop out of the race, and an assassination attempt bolsters Trumps bid on sympathy.

In the Philippines, June CPI comes in at 3.7 vs 3.9 expected, as inflation falls further lower into the BSPs target of 4%. 10y 1072 starts being lifted at 6.6 but eventually goes as low as 6.2 where profit takers start coming out. Good demand for longer tenors shows as a 5yr 2017 reauction had a demand of 3x bid to cover, coming out at an average of 6.3. Because of the large demand a tap was awarded with 9x bid to cover. Follow through buying finally has the new RTB 5y R518 bought below its coupon of 6.25. A further push lower past the resistance levels of 6.2 occurred as the Fed surprised markets by saying that a September cut is on the table. 10y UST falls and local bonds follow, with the 5yr R518 lifted as low as 6.085, the 7yr 2017 at 6.1 and the 10y 1072 also at 6.1, for an extremely flat yield curve.

In the US, Powell is optimistic that they have made progress in battling inflation and that keeping rates too high could have a negative effect on growth. US June CPI comes in at -0.1 vs 0.1 expected, further strengthening bets that a September cut is likely. Eventually the odds of a September cut rise to 100% as Powell says that the Fed does not need to wait for inflation to come down to 2% for them to start moving. Eventually the Fed pauses in its July meeting, as expected by all, but they reaffirm that if inflation stays on its current path, a September cut is on the table. From a high of 4.5 the 10y UST eventually ends the month at 4.03.



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