MONTHLY MARKET RECAP

AUGUST 2024

EQUITY

To start August, investors were greeted with a jarring plunge in stock prices as Japan's Nikkei fell 12.4% in one day - the largest single day drop for said index since Black Monday of 1987. Primarily driven by the unwinding of popular carry trades, it was triggered by the Bank of Japan raising interest rates as the US Federal Reserve and most other central banks are moving in the opposite direction. At the same time, recession fears came to fore. This caused many global equity indices to enter correction territory. At the same time, most currencies appreciated against the US dollar as the Fed waxed dovish.

Fortunately, the PSEi was relatively insulated from this savage direction. Moreover, the correction also proved to be short-lived as economic data from major countries merely indicated a slowdown and not a recession. All told, the PSEi still gained 4.25% in August as foreign funds continued to bargain hunt. In fact, the PSEi broke the 7000 level 3 times on an intraday basis. Still, the major resistance proved to be formidable. Corporates also reported 2Q24 earnings, with most index heavyweights beating forecasts.

Helping the PSEi's rally was the 4% appreciation of the Philippine peso in August. Peso strength was mostly driven by the BSP's guidance of cutting less than the US Fed this year. After cutting interest rates for the first time since November 2020, BSP Governor Eli Remolona said that he expects only one more rate cut towards yearend. Despite above forecast inflation, economists are expecting CPI to fall within the BSP's target range of 2-4% in the coming months. This should ease the burden on consumers while giving the BSP more breathing room to further lower interest rates to stimulate economic growth.

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AUGUST 2024

FIXED INCOME

Very eventful August as markets now are hearing from the Fed that a September rate cut is on the table and that things are looking better on the inflation outlook. This sentiment moves too much though as people now anticipate the Fed is behind the curve. NASDAQ falls into correction territory as traders start taking profits, and the TOPIX has its worst day since Black Monday in 1987 as markets unwind massive carry trades in anticipation of US rate cuts. This would be short lived though as calm prevailed in the next few days but volatility remains high.

In the Philippines, July CPI comes in at 4.4 vs 4.1 expected, which was not what market was expecting. BSP Gov. Remolona states that BSP could actually pause in their next meeting due to this, after saying that BSP would likely cut in August, though an off cycle move is never off the table. In the end though, BSP elects to indeed cut by 25bp as they see the uptick as a temporary blip, bringing the key rate to 6.25. Yield curve is still relatively flat, starting the month out with the 5y R518 at 6.05, the 10y 1072 at around 6.1. 10y rises as high as 6.2 but eventually ends the month back at 6.1. 2Q GDP comes in at 6.3 as expected, which was a relief as it seems the PH economy is in a good place, not overheating so the BSP does not need to hike. We saw the USDPHP fall during the month from 58.30 to begin the month, then quickly moving to the 57 level and even hits a low of 56.88.

In the US, Powell hints that the Fed could be close to a cut in September. US ISM comes in below 50, signaling a slowdown. NFP jobs data were also revised lower for the year, showing weakness in jobs. Finally in its Jackson Hole meeting, Powell says that "the time has come" in terms of cuts, all but assuring markets that they would be cutting in September. 2Q US GDP was revised higher however to 3% from 2.8%, showing that the US economy is still resilient, and calming fears of a recession. Overall the 10y UST falls below 4% to end the month around 3.8-3.9.

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