EQUITY

The Philippine Stock Exchange index's rally has finally come to an end. After 3 straight months of being in the green, the benchmark index lost 1.78% in October as investors derisked their portfolios.

On the geopolitical front, Israel escalated its conflict with Hamas as it launched attacks on multiple fronts in Iran, from exploding beepers to airstrikes to a limited ground incursion. This put commodity markets on the edge as fears of oil supply disruption came to fore. Fortunately, Israel indicated that it has no intention of striking Iran's energy infrastructure and will instead focus on military targets.

As for China, its stimulus surprise turned out to be a dud for many investors. Hoping for a bazooka, Chinese and Hong Kong equity indices were driven up more than 30% by both local and foreign investors. Unfortunately, the stimulus package was lacking in details even after multiple press conferences.

However, the most important and market-shaking event would be US elections on November 5. With surveys indicating that former President Donald Trump is likely to triumph over Vice President Kamala Harris, many investors reduced their emerging market positioning as his policies on trade and tariffs are deemed to favor the US over other countries. This led to weakness and lower trading volume for Philippine stocks towards end-October. The Philippine peso also priced in a Trump victory as it depreciated by 3.7% against the US dollar, even breaking the 58/$ level to end the month.

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FIXED INCOME

After all the waiting, the Fed finally cut rates in September, by a surprising 50bp. Now that this is out of the way, markets are now worrying about geopolitical tensions, with an Iran missile strike on Israel front and center. We also point our attention to the upcoming US election, where Kamala Harris is showing some strong momentum versus Donald Trump. Meanwhile locally we also had market disruptions during the month due to some strong typhoons, which closed down government work and markets for a few days.

In the Philippines, October CPI comes in at 1.9 vs 2.5 expected and 3.3 in September, still continuing with the downward path of inflation. BSP telegraphs a 25bp cut in October and another 25bp cut in December. No real movement though in the local bond space as we had already seen the big dip in yields. Market is more on the profit taking side after hitting lows of 5.5% across the 5yr to 10y tenors, yields move up to 5.85. In the BSP meeting, BSP does push ahead with a 25bp cut but comments from Remolona sound hawkish, stating that 2025 and 2026 inflation risk is to the upside and that they would like to take a measured approach in the upcoming meetings. With the rising tensions in Israel-Iran, and the worries of a possible Trump win pushing UST yields higher, 10y pushes back to the 5.9 levels.

In the US, jobs data comes in hotter than expected. Fed minutes also show that Powell did not have a unanimous decision to do a 50bp rate cut, as the vote was actually closer to half and the minority wanted to only do a 25bp cut. US 3Q GDP was also up 2.8% with a big jump in consumer spending. 10y UST rises within the month to as high as 4.24 but ends the month hovering around the 4% level.

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