DECEMBER 23, 2024

PHILEQUITY CORNER

By Wilson Sy

Fed spoils Christmas party

The merrymaking and the parties on Wall Street turned somber last week as investors digested the Federal Reserve's hawkish surprise. Market sentiment soured, triggering the year's biggest market rout on Wednesday as policymakers signaled fewer rate cuts next year than anticipated.

The S&P 500 plunged 3% in its worst decline since August, while the Nasdaq Composite tumbled 3.6%, erasing two weeks of gains. The Dow Jones Industrial Average extended its losing streak to 10 consecutive days – the longest since the 1970s – tumbling 2.6% as investors fled risk assets

Powell delivered Scrooge

The market wanted Santa, but Powell delivered Scrooge. While the Fed delivered its anticipated quarterpoint cut, the surprise came in the dot plot – showing only two rate reductions planned for 2025. This is a stark downgrade from September's projection of four. Fourteen of 19 Federal Open Market Committee (FOMC) officials aligned behind this more restrictive outlook, leaving just five members forecasting a deeper easing cycle

Tech sector leads market decline

The tech sector bore the brunt of the selloff. Megatech names like Amazon dropped 4.6% last Wednesday, while Alphabet and Meta Platforms fell 3.6%. Even traditionally defensive sectors like utilities and consumer staples were hit, indicating a broad-based retreat.

US Treasury yields surged in response, with the 10-year hitting 4.59%, its highest level since June. Higher bond yields added to the pressure on equities, while the strengthening dollar further tightened global conditions.

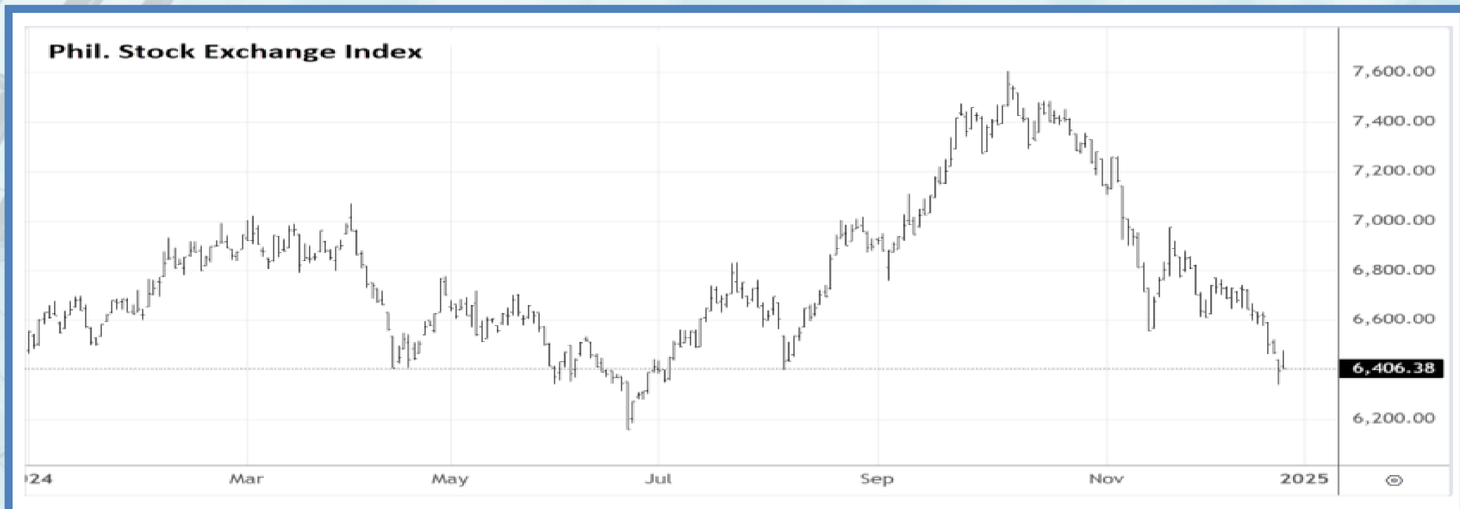
US dollar strengthens further

The US dollar index (DXY) surged to its highest level since November 2022. It reached 108.54 last Friday before closing at 107.81. The rally, initially sparked by Trump's election victory and Make America Great Again (MAGA) policies, accelerated after the Fed's hawkish outlook. Trump's pro-business tax reforms, protectionist trade measures, and the Fed's more restrictive stance drove the dollar higher.

The Philippine peso tested its record low of 59 against the US dollar last week, before settling slightly stronger at 58.81.

Global markets feel the heat

The US market rout following the FOMC meeting rippled worldwide. The MSCI All-Country World Index ETF (ACWI) plummeted 3% last Wednesday. Emerging markets, particularly vulnerable to dollar strength, saw the MSCI EM ETF retreat 2.3%. The Philippine Stock Exchange Index (PSEi) closed at 6,406 last Friday, erasing its yearly gains and settling 0.68% lower year-to-date.



Source: Tradingview.com, Wealth Securities Research

Trump threatens EU

Trump's unpredictability rattled markets when he threatened the European Union (EU) with tariffs on cars and machinery unless the bloc increases US oil and gas imports. The sudden trade ultimatum added another layer of uncertainty to already fragile sentiment following the Fed's hawkish tone.

Inflation data offers late relief

The markets found some relief on Friday after November's cooler-than-expected PCE print of 2.4%. The Fed's preferred inflation metric is slightly below economists' expectations and helped defuse some of the bearishness that arose last Wednesday.

Market Reset 'Healthy,' says Siegel

Wharton business school professor Jeremy Siegel called the stock sell-off "healthy." He said that the Fed's cautionary projection serves as a "reality check" for investors who may have been overly optimistic about a swift rate-cutting cycle.

Fed, Trump Cast Shadow over 2025

This week exposed the market's dependency on Fed dovishness and how quickly narratives can shift when policy expectations are recalibrated. It also highlights the persistent vulnerabilities, especially for emerging markets like the Philippines. While AI-fueled optimism and Fed pivot hopes fueled much of 2024's rally, emerging economies remain highly sensitive to US monetary, fiscal, and trade policies.

The combination of Trump's unpredictability, MAGA policies, dollar strength, and a more patient Fed suggests continued volatility ahead, especially for markets dependent on foreign capital flows and exposed to currency pressures.