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PHILEQUITY CORNER

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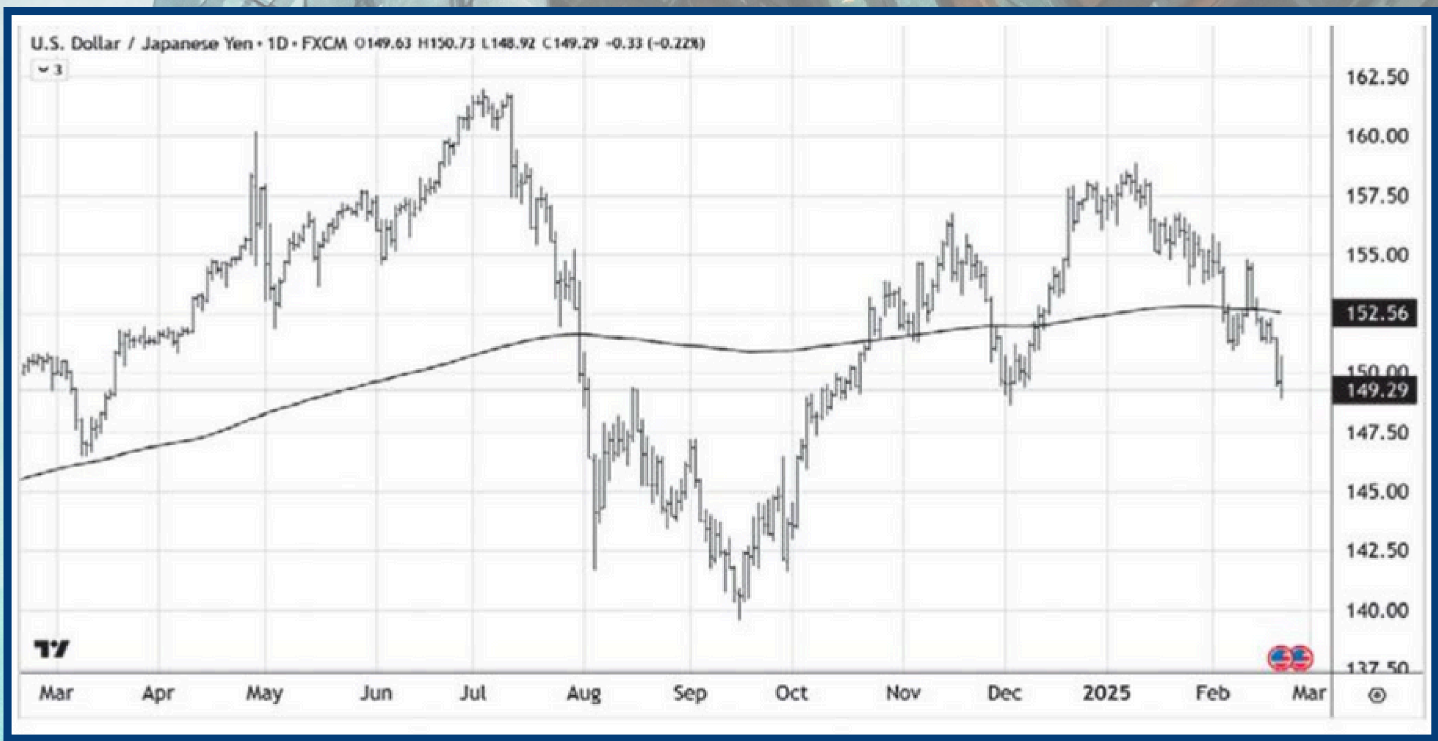
Dollar subdued due to slowing US economy

Prior to Trump taking office, many economists predicted that his economic policies would fuel the dollar's strong run. Instead, the currency has weakened due to growing immunity to Trump's tariff threats, overcrowded positioning in dollar longs and possible "Trump fatigue," as mentioned in last week's article. Adding to the downward pressure on the US dollar are signs of a slowing US economy as the Department of Government Efficiency (DOGE) moves to streamline federal spending, along with new immigration and tariff policies.

The US dollar index (DXY) has fallen by 1.74 percent year-to-date, dropping to 106.64 as investors reassess their bullish dollar positions.

Yen strongest in four months

The Japanese yen closed at its strongest level in four months as the USD/JPY rate broke below the crucial 150 support level. Japan's inflation hit four percent in January from 3.6 percent in December, reaching its highest level since January 2023. Headline inflation has been above the Bank of Japan's two percent target for 34 straight months, further strengthening the case for rate hikes by the Bank of Japan. The yen has rebounded by 6.3 percent from its high of 158.57 in January to close at 149.23 vs. the dollar last Friday.



Euro's steady climb

The euro too is steadily gaining against the greenback. The EUR/USD rate bottomed at 1.0176 in early January, its weakest in more than two years. It has climbed back to 1.0456 as of Friday's close. The euro's rebound has not been as remarkable as the yen, but its steady rise has contributed to DXY's weakness this year. The narrowing interest rate differential has supported the euro as US Treasury yields pulled back, with the 10-year yield dropping from its 4.81 percent high in January to 4.43 percent as of Friday.

Point72's Cohen flags policy headwinds

Point72 Asset Management founder Steven Cohen has warned about the negative impacts of Trump's tariffs and immigration crackdowns on the economy. He believes that tariffs act as a tax, potentially leading to inflationary pressures. Cohen also cautions that it often triggers a tit-for-tat retaliation which can escalate to broader trade conflicts. Additionally, immigration curbs could constrain an already-tight labor force and affect economic growth.

DOGE's spending cuts spark growth concerns

Elon Musk's pledge to cut federal spending by $2 trillion through DOGE, as mentioned by Cohen, could hurt the economy. When government spending is reduced, it threatens economic growth especially if the cuts are not offset by other forms of economic activity. Cohen expects these measures to slow US economic growth to 1.5 percent from 2.5 percent in the second half of the year.

US markets retreat from record highs

Last Friday, US indices pulled back sharply from their recent record highs due to mounting policy concerns and reports of a slowing economy. The Dow Jones fell by 748 points or 1.7 percent, marking its worst day of 2025 so far. The S&P500 and the Nasdaq Composite also experienced significant declines of 1.7 percent and 2.2 percent, respectively.

Philippine policy shift paints better picture

While the US faces fiscal tightening, the Philippine market is seeing supportive policy shifts. The Bangko Sentral ng Pilipinas (BSP) is cutting the reserve requirements ratio for universal and commercial banks by 200 basis points to five percent. In addition, the country's removal from the FATF grey list and the lower stock transaction tax – from 0.6 percent to 0.1 percent- should boost market sentiment and activity.

China rally signals emerging market rebound

The US stock market weakness is boosting emerging market currencies and equities, with China leading the way. The Hang Seng Tech Index has surged by 32.2 percent this year, while Chinese tech giant Alibaba has soared by 69.5 percent. China's sudden market turnaround is due to Deepseek's AI development which shocked both Silicon Valley and Wall Street. Meanwhile, Alibaba's Qwen AI model has performed well against benchmarks and will soon be incorporated into Chinese iPhones. China's AI-driven revival has transformed a previously "uninvestable" market into the new darling of global capital.

More chances for emerging market recovery

China's recovery could herald broader gains in emerging markets, including the Philippines. The Philippine peso has steadied along with other emerging market currencies against a subdued US dollar. Historically, peso stability has signaled Philippine equity market recoveries, given the strong correlation between peso movements and stock market performance.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 8250-8700 or email ask@philequity.net.