

EQUITY

After holding their breath for many months, investors let out an audible gasp in November. Just as surveys predicted, former US President Donald Trump is once again headed back to the White House. What surveys got wrong was that the race would be close - it was far from that. Trump won 312 electoral college votes as against Vice President Kamala Harris' 226 electoral college votes. He also won the popular vote - the first Republican candidate to do so in 20 years.

His US against the world stance caused foreign investors to run towards the exit at full speed. An increase in tariffs is viewed to be negative not just for China, but emerging markets as a whole. Thus, the PSEi dropped 7.4% in November, its worst monthly decline since 2022. Foreign outflows amounted to \$350M, wiping out all YTD inflows and more. The speed of the drop caught many investors by surprise as support levels were broken with nary a bounce.

Further compounding this was the peso's continued depreciation all the way to the 59/\$ level. The October to November move erased all of our currency's previous gains. With the stock market highly correlated with the peso, the downmove for stocks was reinforced. BSP Governor Eli Remolona also indicated that another rate cut is forthcoming, in contrast with the US Federal Reserve which is now seen to cut less than expected. While this is needed to stimulate growth, it causes the Philippine peso to weaken against the US dollar as well.

Not only are we lacking catalysts, but 3Q24 earnings were lackluster. Some companies also reported income that were massively below forecast, adding to concerns over softness in the consumer and property sector. Still, after the steep drop, valuations for most stocks have become very compelling once again

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FIXED INCOME

November was filled with political news, foremost was the US Presidential election, where Trump was elected for a second term, beating rival Kamala Harris. With Republicans firmly in control once more, markets surged to record highs on risk on sentiment, but much of the gains were in the US while money flowed out of other countries. Also, the Russia Ukraine war reescalates with missiles being shot again. Here in the Philippines, most people are following the telenovela unfolding in the Senate and Congress, with VP Sara Duterte threatening to assassinate PBBM. Then cases for impeachment and disbarment are filed against the VP.

In the Philippines, October CPI comes in at 2.3 as expected and 1.9 in September. Though October print is higher than the previous month, it is still well within the BSP target range of 2-4%. Meanwhile 2Q GDP comes in at 5.2 vs 5.7 expected, with underperformance coming from the agricultural sector. DOF Ralph Recto mentions that he sees more rate cuts coming for the next few months. However local bonds just follow the UST move higher with the Trump victory. As UST yields rise on inflationary talk by Trump, local bonds are given with both the 5y and 10y hitting close to 6%. USDPHP also hits a new low of 59 with the BSP aggressively defending this level. Eventually this level holds and we find support at the 58.70 level.

In the US, with the Trump victory, the markets view the play as "America First". Money flows were decidedly back to US, with equities reaching record highs and the USD strengthening against all major currencies. Trump says that in his first day of office he will impose a 25% tariff on Canada and Mexico, and further tariffs on China. 10y UST reaches as high as 4.5 but eventually settles at around 4.35. Fed also cuts rates by 25bp as expected.

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