# EQUITY

After a bloody four-month bloodbath that culminated in a 10.2% drop last month, the PSEi finally managed to stage a recovery as it gained 2.3% in February. We note that foreign selling has started to slow down, with the exception of month-end MSCI rebalancing. If it were not for that, the index would have ended February on a higher note.

On the macro front, Trump 2.0 is proving to be much more unpredictable than expected. US President Donald Trump announced a slew of tariffs on Canada, Mexico and China, only to backpedal soon after. This caused global markets to swing wildly as policy direction became increasingly unclear. Many economists are sounding the alarm that Trump's tariff strategy will not only lead to significant uncertainty, but also serve to dampen economic growth, especially in the US.

With these concerns in mind, the US Federal Reserve decided to keep rates on hold. This was widely expected as US Fed Chairman Jerome Powell voiced concerns over the impacts of the new government's policies. What was unexpected was the BSP's surprise pause. While it did cut the RRR for banks to 500 bps, it kept the benchmark rate the same. This caused the Philippine peso to strengthen by 70 bps against the US dollar, ending the month at 57.99/$.

**MIGUEL AGARAO**

Fund Manager (Equities)

# FIXED INCOME

The month of February had markets guessing on whether Trump would push through or delay tariffs and whether it would start a trade war. Initially going ahead, Trump delayed tariffs indefinitely but then went ahead at the end of the month with tariffs on Mexico, Canada and China. Slowing US economic data also has markets worried that tariffs would cause higher inflation and dip the US into a recession.

In the Philippines, January CPI comes in at 2.9 vs 2.8 expected and the same as December inflation. Market takes this positively as it provides room for the BSP to continue to cut. However, BSP surprises by not cutting rates, citing worries in the US with the Fed signaling that it will go slow on further rate cuts. Local bonds were given on the news, with 5y r518 up to 6.05 and 10y 1072 up to 6.185. However, in good news, BSP instead cuts the RRR by 200bp, releasing another 300bn pesos into the market. Relief rally occurs with r518 down to 5.85 and 1072 down to 6.05. During this time, PCOMP also is hit hard, going below the 6000 level to 5800 on market rebalancing while USDPHP strengthens to 58.05

In the US, 10y UST reaches as high as 4.64 as the Fed mentions that it does not have to hurry in cutting rates, without explicitly mentioning tariffs as an inflationary risk. US CPI comes out at 0.5 vs 0.3 expected, which increases the worry on inflation. US equities come down from all time highs, especially the tech heavy Nasdaq. However slower economic data and consumer confidence has markets wary of a slowdown or recession, which leads to 10y UST softer to end at 4.28.

**TIMOTHY SY**

Fund Manager (Fixed Income)