MONTHLY MARKET RECAP

JANUARY 2025

EQUITY

The downtrend of Philippine stocks accelerated in January as it fell 10.2%, breaking the critical 6000 support. Net foreign selling continued for the third straight month as foreign institutions sold $114M worth of equities during the month. Index rebalancing that was executed at month-end contributed significantly to the stock market's plunge as it fell 4% on January 31 alone.

US President Donald Trump's inauguration initially allayed fears that he will follow through on his campaign promises. While his immigration policies had little effect on capital markets, investors started to get jittery as he announced potential tariffs on Canada and Mexico starting on February 1. With the trade war likely to go global, emerging markets including the Philippines plunged.

Domestically, 4Q24 GDP came in at only 5.2% YoY, which implies 1.8% QoQ growth - a paltry figure considering we entered the holiday season. This is indicative of weakness in consumption, which was exacerbated by tepid government spending. We note that December inflation of 2.9% was also above forecasts and contributed to the miss in the GDP print. This weakness in domestic consumption prompted BSP Governor Eli Remolona Jr. to signal 2 more rate cuts in 2025 and a 200 bps reduction in the required reserve ratio for banks.

MIGUEL AGARAO

Fund Manager (Equities)

FIXED INCOME

The start of 2025 was more of a continuation of the cautiousness seen to end 2024, as markets digested the Trump reelection and proposed tariffs coming into play. We also saw strong jobs and inflation data coming out of the US, which put a dent on optimism on how much the Fed could actually cut this year.

In the Philippines, December CPI comes in at 2.9 vs 2.6 expected and 2.5 in November. This was downplayed though because December still saw rainy weather and likely impact from the strong storms in November. BSP still very dovish as governor Remolona states that they want to cut the RRR down to 5% this year and maybe to 0 by 2029. Local bonds settle higher to around 6.25 for the 5yr R518 and 6.375 for the 10y 1072. However this was the high for the month as 4Q GDP misses 5.5 target, coming in at only 5.2. FY 2024 was also lower at 5.6 vs 5.8 expected. With US CPI coming in lower and UST yields softening, we saw local bonds finding some support. In the end, 5yr was seen at 5.925 and 10y at 6.16. We also saw some volatility coming in to the bond markets from the equity markets, with China's deepseek AI causing havoc on tech companies in the US. This sent PCOMP also lower towards the 6000 handle.

In the US, 10y UST reaches a high of 4.765 as NFP jobs report blows past expectations. However the Dec CPI comes in at 3.2, slightly lower than expected. The Fed held rates steady at 4.25 as widely expected, after cutting for 3 straight sessions. Also absent from the comments was the words that they have made progress towards the 2% inflation goal. Finally 4Q US GDP also misses, at 2.3 vs 2.5 expected, which causes 10y UST to finally settle around 4.5.

TIMOTHY SY

Fund Manager (Fixed Income)