

EQUITY

The Philippine Stock Exchange index continues its recovery from January lows as it gained 3% in March. It bounced off the crucial 6000 support level to 1st quarter of 2025 at 6,180.72. The index is now down just 5.3% YTD.

Domestically, the PSEi's rally was underpinned by March inflation slowing down to 1.8%, which is already below the bottom end of the BSP's target range. This gives the BSP more room to reduce interest rates if necessary. Moreover, after slowing to a trickle, foreign outflows reversed and the market booked a net inflow of \$50M. The most impactful domestic event was the arrest of former President Rodrigo Duterte and his subsequent flight to the Netherlands to face charges from the international Criminal Court at the Hague. While there was no immediate impact on stock prices, history shows that significant political noise may lead to market volatility.

Offshore, all eyes are on US President Donald Trump's tariff policy. After announcing 25% tariffs on Canada and Mexico as well as 20% tariffs on China, he delayed implementation to April 2 to give time for the countries to negotiate. Thus, markets heaved a sigh of relief. This is the second such flip flop on tariffs by the Trump administration so far.

On central bank action, the US Fed decided to keep interest rates on hold as it monitors the impact of the Trump administration's policies. On the other hand, the BSP said it expects 50-75 bps in rate cuts this year as long as inflation remains at the lower end of their target range.

**MIGUEL AGARAO**

Fund Manager (Equities)

FIXED INCOME

The only thing on the market's mind in the month of March was Trump tariffs. Market debates whether it would push through or not but indeed, tariffs on Mexico, Canada and China are levied as planned. Canada and Mexico take a measured approach in retaliation but China does a tit-for-tat increase in its own tariffs.

In the Philippines, February CPI comes in at 2.1 vs 2.6 expected and vs 2.9% in January. Lower inflation coming from low food prices such as rice and pork. Local bonds start to see some action with demand coming back, 5y r518 being bought at around 5.95 after lingering at close to 6% and the 1072 settling at 6.2. These are still around 10-15bps higher than where they were last month. Remolona announces that BSP would like to continue with rate cuts soon to support the economy given that inflation is still quite low. BSP also cuts RRR again to 2% for big banks, to settle at 5%, releasing another 300bn into the markets. Finally, Ralph Recto says that they are confident that PH should hit its 6% target growth for this year, and he would like to see 50-75bp of cuts from BSP.

In the US, markets are scared that a recession may happen as US treasury secretary says that they will curb federal spending and Trump says that there will be a period of transition, and he will allow for a slower economy. Trump also announces a 50% tariff on steel products before reversing course. Finally the Fed keeps rates steady, but says that inflation from tariffs may only be "transitory".

TIMOTHY SY

Fund Manager (Fixed Income)

