

EQUITY

May 2025 proved to be a very eventful month both domestically and abroad. Despite the various events pushing and pulling the PSEi, the index was practically flat, losing a mere 0.2% to end the month at 6,341.53. Excluding an arranged block in RRHI, net foreign buying amounted PhP 1.3 billion in May despite month-end MSCI rebalancing.

Senatorial election results in the Philippines defied surveys, with only 5 candidates supported by the incumbent government winning seats. Another 5 seats were taken by candidates allied with Vice President Sara Duterte. President Ferdinand Marcos, Jr. responded to this with a surprise order asking all Cabinet officials to submit courtesy resignations. With the purpose of "responding to the needs of the people", Marcos has so far retained most of the critical positions. We note that the entire economic team was retained.

The Philippines' 1Q25 GDP growth clocked in at 5.4% - below forecasts of 5.7%. Corporate earnings in the first quarter were also lackluster, with PSEi members having almost the same aggregate net income as 1Q24. It is against this backdrop of slowing economic growth and benign inflation that BSP Governor Eli Remolona, Jr. said that 3 interest rate cuts are on the table for the balance of 2025.

On the tariff front, the saga continues as the US announced trade deals with both the UK and China. However, weeks after, both the US and China accused each other of reneging on key provisions of their agreement. US President Donald Trump also railed against countries that were dragging their feet in negotiations. Despite the 90-day deadline for trade deals coming up soon, not many countries have sealed agreements with the US.

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FIXED INCOME

After a chaotic month of April due to Trump's liberation day, May was calmer due to more detail coming out on tariffs and an eventual postponement for the blanket tariffs announced earlier. A US trade court initially blocks Trump tariffs but is reinstated by a Federal appeals court. Time will tell if we get more clarity on tariffs, as eyes will be on July when the 90d postponement comes to an end.

In the Philippines, April CPI comes in at 1.4 vs 1.8 expected and vs 1.8% in February, as prices continue to fall, primarily driven by food and fuel. We also got a lower reading in 1Q GDP, 5.4 vs 5.8 expected, furthering the case for BSP to continue easing or supporting the economy with other tools. We start to see some foreign inflows into the local bond market and locals also start to reposition. The new 10y 1073 jumbo bond is taken all the way to 6.25 as market looks to lengthen duration. Move in USDPHP to below 56 may also be a reason for the inflows. USDPHP hit a low of 55.38 before settling closer to 55.80.

In the US, market is pricing in around 75 to 100bp of cuts by the Fed with an expected probability of 50% for a recession in the US. In its meeting, the Fed decided to keep rates on hold however, citing uncertainty has risen with regards to the economic outlook and inflation risks remain elevated, without mentioning Trump specifically. In other news, the US lost its final AAA rating as Moodys downgrades the US to Aa1, citing the ballooning deficit, which Trump's "big beautiful bill" would make even bigger. After floating around 4.25, the 10y UST settles at around 4.5.

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