

EQUITY

After November's early Santa Claus rally, the PSEi consolidated in December and managed to stay above the crucial 6,000 level closing at 6,052.92, up by 0.5% MoM. This was largely supported by local institutional buying as foreign funds remained net sellers with outflows for the month amounting to PhP 12.25 billion. The ongoing flood control corruption scandal impacted both economic growth and investor confidence. Combined with the lack of significant catalysts, the market fell by 7.3% YoY in PHP terms and 8.6% YoY in USD terms, making it the worst performing equity index in Asia.

On a lighter note, the inflation rate remained benign in November at 1.5% on the back of slower price increases for vegetables and meat as well as continued decline in rice prices. This paved the way for the BSP's widely anticipated cut of 25 bps, its eighth cut since August 2024. Benchmark rate is now down to 4.5% from 6.5% last year. However, BSP Governor Eli Remolona indicated that we are close to the end of the easing cycle.

Meanwhile, the Fed also delivered another 25 bps cut with their benchmark rate now down to a range of 3.5%- 3.75%. Similar to the BSP, Fed Chair Jerome Powell provided a hawkish guidance as he highlighted a wait-and-see approach in his statement. Rate cuts from both central banks, the seasonally strong OFW remittances and a weaker dollar supported the peso, closing at 58.805/\$, slightly depreciating by 0.02% MoM.

**MIGUEL AGARAO**

Fund Manager (Equities)

FIXED INCOME

Uncertainty around the US Fed decision is causing markets to stay on the sidelines as Jerome Powell talks up the US economy strength, and that it may not need to cut despite Trump pressuring the Fed to do so. Locally more weather disturbances and the extremely long Christmas break causes lackluster trading and yields erase most of the 4Q gains to send the 10y back up close to the 6% level.

In the Philippines, Nov CPI comes in at 1.5 vs 1.7 expected despite severe weather causing food costs to rise. Local bond yields continued their positive run from the previous month, with the r518 touching 5.28, the 5y r519 at 5.5 and 10y 1073 at 5.825. BSP then proceeds to cut, bringing the key rate to 4.5 as widely expected, but then comments from BSP gov Remolona causes a stir, saying that this may be the BSP's final cut. He walks back his comments by saying BSP must still be supportive of the economy and 4Q may be weak, but damage was done. In the end, yields ended higher by 10bp at the end of December.

In the US, despite mixed signals, Fed decides to cut by 25bp, considered by the market as a "hawkish cut". Dot plots show 1 more expected cut in 2026 and 1 cut in 2027. 10y UST eventually ends the year mostly flat at 4.14.

TIMOTHY SY

Fund Manager (Fixed Income)

