PHILIPPINE EQUITIES

The PSEi fell below its crucial 6,000 support level to 5,956.33, down 4.5% MoM, bringing its YTD return to 1.6%. The index held firm earlier in the month as July inflation eased and earnings season results came in more positively than expected. However, a confluence of unfavorable macroeconomic developments, both domestically and globally, caused it to break support. The Philippine Peso depreciated to a new all-time low of 62.27/$, making it the worst-performing currency in Asia YTD. As a result, net foreign flows turned negative, with a massive PhP13.76 billion in outflows in August. This was also due to adjustments following the MSCI rebalancing, which reduced the MSCI Philippines index to 9 names after the removal of Ayala Land.

Headline inflation in July slightly eased to 6.2% from 6.4% in June due to slower transport index and stable food prices. This was lower than the consensus estimate of 6.4% and within the BSP's forecast of 5.6%-6.6%. Meanwhile, 2Q earnings results also came in better than expected, as consumer companies performed well despite inflationary pressures and price hikes. That said, we note that analysts have drastically reduced their forecasts ahead of 2Q results.

2Q GDP YoY growth further declined to 2.3% from 2.8% in 1Q, its slowest pace in 5 years. The drag came from a contraction in gross capital formation and a slowdown in household consumption. This was slightly offset by growth in government consumption and an acceleration in exports of goods and services. Moreover, while Moody's Analytics maintained its investment-grade rating for the Philippines at Baa2, it downgraded its GDP growth forecast for the year to 3.0% from 4.0%.

Meanwhile, the BSP raised its key policy rate by 25 bps to 5.0% at its August policy meeting, as widely expected. BSP Governor Eli Remolona Jr. noted that the rate hike was "preemptive" and that "we're hoping we won't need another rate hike." Inflation risks remained tilted to the upside due to the potential impact of El Nino, surging crude oil prices and wage rate hikes. The dovish hike and tepid growth expectations caused the Philippine peso to depreciate to new record lows. Volatility abroad also contributed to the peso's decline as bond yields globally rose to multi-year highs amid inflationary pressures, geopolitical tensions and fiscal concerns.

AUGUST 2026

GLOBAL EQUITIES

Global markets gained in August as sentiment toward AI stocks reversed following the July selloff. However, the resumption in Middle Eastern tensions and the surge in bond yields gave investors some pause. The MSCI All-Country World Index (MXWD) grew by 2.46% MoM to 1,149.2. Major US Indices were up MoM with S&P 500 and Nasdaq outperforming the benchmark. Asian indices that are heavily exposed to the AI ramp-up also outperformed as South Korea's KOSPI was up 3.4%, Japan's Nikkei 225 increased by 3.0% MoM, and Taiwan's TAIEX rose by 7.0% MoM. European markets were mixed, led by Germany's DAX.

Bullish sentiment on big tech expanded in August after Nvidia's better-than-expected earnings and revenues in 2Q driven by its data center business. It also reported a higher fiscal revenue growth outlook of 70% for 2028. Except for Alphabet and Amazon, the Magnificent Seven's Apple, Microsoft, Meta, Tesla and Nvidia posted strong gains MoM. Asian indices recovered as semiconductor and chip stocks rebounded from the dip in July.

Meanwhile, crude oil prices remained elevated, rising by 1.3% MoM at $85.76/bbl due to the ongoing conflict in the Middle East. The 60-day ceasefire between the US and Iran, which expired on August 17, was not extended. Energy supply disruption due to the war also caused the US Strategic Petroleum Reserve (SPR) to fall below 300 million barrels, its lowest level in more than 4 decades. This poses a risk to the US' ability to respond to another major supply disruption in the future.

The US 30-yr Treasury yield reached 5.339%, its highest level since June 2007, while the 10-yr Treasury yield also hit 4.75%, a 19-month high. Other sovereign bonds across the world also followed suit. Warsh delivered his first keynote address at the annual Jackson Hole Symposium where he stood hawkish as he reiterated the Fed's commitment to bringing inflation back to its 2% target. The dollar went volatile but ended lower by 0.49% MoM. This made precious metals more attractive, with gold gaining 10.1% MoM.

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AUGUST 2026

FIXED INCOME

Another month, another ceasefire only to be broken again. August brings hope that the peace deal would last longer this time as oil briefly breaks below $80/bbl as Trump wants to give peace a chance. The US treasury also announces a large bond buyback to stabilize yields. And markets are anticipating new Fed Chair Kevin Warsh' first speech in Jackson Hole to give guidance on what the Fed will do.

In the Philippines, July CPI comes in at 6.2% vs expected 6.4%, and lower than 6.4% in June, a continuation of the slowdown in inflation as oil prices continue to come down. Local bond yields find buyers especially for the shorter end, with the 2 and 3yr bonds favored, taken below 7% while the 4y 770 is taken around 7. Then we got 2Q GDP figures coming in at 2.3 vs 2.9 expected. This is a dismal figure, even worse than an already pessimistic estimate. The domestic consumer is being hit hard by price increases while government spending is not enough to support the economy alone. The BSP then raises rates by 25bp as expected in a bid to keep prices in check.

In the US, 10y UST hits a low of 4.62 on optimism that a ceasefire would be signed. It briefly jumps back above 4.68 on news that Iran and Oman had a deal to close the Strait of Hormuz, but eventually settles at 4.62.

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