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A good start

Despite their poor performance last year, global equities had a very good start for 2023. The S&P 500 is up 4.2% year-to-date and the MSCI All-Country World Index (ACWI) ETF has gained 5.7%. The US dollar is down 1.3% this year, paving the way for the sustained rebound of all currencies. The PSEi joined the global stock market rally and is up 5.9% year-to-date in peso terms and 7.5% in US dollar terms.

Major stock markets	Local ytd 2023	in USD ytd 2023
Europe (Stoxx 50)	9.4%	10.7%
Italy	8.8%	10.0%
France	8.5%	9.8%
Germany	8.4%	9.6%
Spain	7.9%	9.2%
US (Russell 2000)	7.1%	7.1%
UK	5.3%	6.5%
Australia	4.1%	6.5%
Canada	5.0%	6.3%
US (Nasdaq)	5.9%	5.9%
US (S&P 500)	4.2%	4.2%
US (Dow Jones)	3.5%	3.5%

Asian stock markets	Local ytd 2023	in USD ytd 2023
Hong Kong	9.9%	9.9%
South Korea	6.7%	8.3%
Philippines	5.9%	7.5%
China (SHCOMP)	3.4%	6.5%
Taiwan	4.9%	6.4%
Vietnam	5.3%	6.1%
Thailand	0.8%	6.1%
Singapore	1.3%	2.9%
Japan	0.1%	2.6%
Malaysia	0.0%	1.6%
India	-1.0%	0.8%
Indonesia	-3.0%	-0.3%

Sources: Bloomberg, Wealth Securities Research

China's rebound

The strong start of equities in 2023 was partly driven by the surge in Chinese stocks. Year-to-date, MSCI China is up 13.4% while Hong Kong is up 9.9%. China was one of the worst market performers last year, falling by 15.1% in local currency terms and 21.8% in US dollar terms. However, stark changes in major government policies sparked a resounding rebound in Chinese assets.

Is China investable again?

China started relaxing its ultra-stringent COVID-zero policy and gradually re-opened its borders towards the end of last year. More recently, China pulled back on the regulatory scrutiny of its most powerful mega-tech corporations. In 2021, China initiated a heavy-handed crackdown (see *China crackdown*, August 2, 2021). This was in support of the government's campaign of "common prosperity" which went after multi-billionaires as it sought to promote more equitable wealth distribution (see *Common Prosperity*, August 30, 2021). These policies triggered many fund managers to dump their Chinese exposure, thereby causing a plunge in Chinese stocks. Many investors consequently labeled China as uninvestable. However, top officials last week indicated that the regulatory attacks are basically over, and that the government will "promote the healthy development of internet platforms." In addition, China reversed its stance and started providing policy support for its troubled property sector.

Raise then hold

Bullish investor sentiment was somewhat tempered by hawkish comments made by US Federal Reserve (Fed) officials. Atlanta Fed President Raphael Bostic believes that the Fed should raise interest rates above 5% and then go on hold for a long time. Kansas City Federal Reserve President Esther George sees a Fed terminal rate of above 5% "and staying there for some time… until we get the signals that inflation is really convincingly starting to fall back toward our 2% goal." Federal Reserve Bank of St. Louis President James Bullard favors raising interest rates above 5% and stated that "it would be appropriate to get there as soon as possible." San Francisco Fed President Mary Daly said, "I think something above 5 is absolutely, in my judgement, going to be likely." These comments, as well as the very hawkish stance of Fed Chair Jerome Powell, sparked recession concerns anew and caused some volatility.

Mild recession

Last Friday, major US banks disclosed their earnings and provided their macroeconomic outlook. JPMorgan delivered better-than-expected earnings, but the bank indicated in its outlook that it sees "a mild recession in the central case." JPMorgan Chairman and CEO Jamie Dimon said, "We still do not know the ultimate effect of the headwinds coming from geopolitical tensions including the war in Ukraine, the vulnerable state of energy and food supplies, persistent inflation... and the unprecedented quantitative tightening." Bank of America Chairman and CEO Brian Moynihan shared a similar view in their earnings call and stated that "our baseline scenario contemplates a mild recession."

Market vs. the Fed

Though global markets had a strong start this year, there is a seeming disconnect between investor perception that inflation has peaked and the continued hawkishness of the Fed. This sparked fears of a deep recession that may be caused by central bank overtightening. This likewise raised concerns about the potential downgrade of corporate earnings estimates. Equity strategists of top American investment houses thus remained cautious on the stock market.

Is the worst over?

On the other hand, recent data showed that US headline CPI for December fell 0.1% month-on-month while year-on-year growth slowed to 6.5% from a peak of 9.1% in June. Last week, Bangko Sentral ng Pilipinas (BSP) Governor Felipe Medalla said, "I think the worst is over... although the year-on-year is quite high, the month-on-month is back to the normal 0.3 percent." Clearer indications of a slowdown in interest rate hikes, a peak in inflation and the US dollar, coupled with major policy changes that spurred the market rebound in China, may signal that the worst is over for investors.

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