



# PHILEQUITY CORNER

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## Fed Cuts - Good for Peso & PH Stocks

The Federal Reserve’s 50bp cut and Chair Jerome Powell’s optimistic economic outlook reignited market confidence that the central bank will keep the US economic expansion going. Last week’s cut marks the start of a new easing cycle, with the Fed dot plot indicating another 50bp of cuts in 2024 and an additional 100bp in 2025. The projected fed funds rate of 3.4% by end-2025 signals a sustained period of lower US rates. This is supporting gains in the Philippine peso and stock market as part of a rotation and broadening into ASEAN markets.

## Powell ‘recalibration’ policy

Powell's positive outlook on the U.S. economy and dismissal of imminent recession fears were the key takeaways from his press conference last week. Powell described the economy as “in a good place,” with Fed rate cuts “designed to keep it there.” He emphasized continued economic expansion and the Fed’s commitment to maximum employment and 2% inflation. By framing the policy shift as a “recalibration,” Powell reinforced that this 50bp cut and easing cycle aims to extend economic expansion and not a reaction to a looming recession

## ASEAN currencies rally on dovish Fed

ASEAN currencies are capitalizing on the Fed’s dovish outlook, extending their 2024 gains. The Malaysian ringgit leads the region, up 9.28% year-to-date and 14.15% from its 2024 low. The Thai baht follows closely, while the Indonesian rupiah, Singaporean dollar and Philippine peso also show strong recoveries.

Asian EM currencies	Year-to-date 2024	rally from 2024 low
Malaysian Ringgit	9.28%	14.15%
Thai Baht	4.03%	12.93%
Indonesian Rupiah	1.64%	8.58%
Singaporean Dollar	2.31%	5.81%
Philippine Peso	-0.46%	5.80%
Korean Won	-3.09%	4.69%
Vietnamese Dong	-1.35%	3.53%
Chinese Yuan	0.75%	3.25%
Taiwanese Dollar	-4.40%	2.79%
Pakistani Rupee	1.23%	1.32%
Hong Kong Dollar	0.27%	0.61%
Indian Rupee	-0.44%	0.49%
	Year-to-date 2024	pullback from high
Dollar Index	-0.60%	-5.21%

## Peso targets 55, then 54

Contrary to investors’ fear of the USDPHP rate breaking above 59, it has instead broken below the 57 and 56 support levels. If the interest rate differential between the Philippines and US is maintained or widens, further gains are likely. The next target for the peso is 55 against the US dollar and eventually 54 if current trends continue.

## Investors rotate into ASEAN markets

Capital inflows to ASEAN markets continue, validating last week's analysis (see *It's Too Late*, September 16). The Global X FTSE Southeast Asia ETF (symbol: ASEA) reached its highest level since May 2018, outpacing broader emerging markets. ASEA has returned 17.6% year-to-date, more than doubling the 8.7% return of MSCI Emerging Markets ETF (symbol: EEM). It has also closed higher for the seventh consecutive week.



## PSEi breaches 7,000, eyes pre-pandemic levels

The Philippine Stock Exchange Index (PSEi) has closed above 7,000 for the second consecutive week, a significant psychological barrier. It is up 12.4% year-to-date and 17.8% from its 2024 low. Technical analysis now points to 7,500 as the next target - a resistance level last seen pre-pandemic.



## BSP gains policy flexibility

The Fed's easing stance and the stable peso allow the BSP to support economic growth while maintaining higher rates than the US. Last Friday, the BSP has announced sizeable reductions to bank's reserve requirements ratio (RRR): cutting 250bp to 7% for big banks and nonbank institutions, and 200bp to 4% for digital banks. In addition, Finance Secretary Ralph Recto has expressed support for a 50bp rate cut in October, matching the Fed's 50bp decrease. These moves would inject more funds into the financial system as borrowing costs fall.

## Positive outlook for peso and stock market

Easing global monetary conditions, currency stability, low inflation, robust economic growth, attractive valuations, and underweight positioning in ASEAN and Philippine stocks are appealing to investors. If the U.S. avoids recession, as Powell suggests, ASEAN currencies and stock markets could continue to gain. This encouraging environment indicates that the peso could further strengthen and the Philippine stock market could see further upside.

*Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit [www.philequity.net](http://www.philequity.net) to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 8250-8700 or email [ask@philequity.net](mailto:ask@philequity.net).*