

## EQUITY

The recovery of the PSEi accelerated in September as it gained 5.44%. Many milestones were achieved in September. With the rally now in its 3rd month, major resistance of 7000 was finally broken. Moreover, the benchmark index rose more than 20% from its recent low of 6158 - this marks the PSEi's official entry into bull market territory. This was underpinned by Php 19 billion in net foreign buying.

One of the main reasons behind the continuation of this rally was the Federal Reserve's 50-bp interest rate cut and the press conference that followed. Fed Chairman Jerome Powell elaborated on the Fed's recalibration strategy while saying he does not see a recession in the horizon. This inspired investors who were wary of a potential recession. This caused US equity indices to reach new all-time highs, lifting other markets.

At the same time, the BSP maintained its easing trajectory as it followed its interest rate cut in August with a RRR cut in September. BSP Governor Eli Remolona indicated that he sees 1-2 more benchmark rate cuts this year, while RRR may actually reach 0% before his term ends. This will serve to stimulate borrowing and economic growth.

With the BSP set to cut rates less than the Fed, the Philippine peso strengthened massively, breaking the 56/\$ level and going as high as 55.46 intraday. This helps bring down inflation while also making Philippine stocks more attractive to foreign investors.

Towards month end, China announced a massive stimulus package meant to revive its economy and pull it out of a deflationary spiral. This included a direct infusion into banks, a stock stabilization fund, swap facility, a cut in home down payments, lower mortgage rates and many more. Chinese and Hongkong stocks then staged their strongest rally since 2008 as they both gained more than 20% in less than 2 weeks.

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# FIXED INCOME

Rainy September as storms close government offices and markets but the real mover was the Fed, which finally started its rate cutting cycle in earnest, with a 50bp cut. Not to be outdone, China pumps stimulus into its economy in a big way with cuts to mortgage rates, and funds pushed into Chinese equity markets to pump stocks up.

In the Philippines, Aug CPI comes in at 3.3 vs 3.6 expected and 4.4 in August, continuing the downtrend that BSP was expecting, with the path pointing further down as the lower rice tariffs funnel through the economy. Falling oil prices are also a further tailwind for PH inflation. With prices in retreat, BSP comments that they will go ahead with cuts to the bank reserve requirements before they yearend and surprise markets by not waiting at all and cutting the RR by 25bp, releasing about 150bn in liquidity. DOF head Ralph Recto also says he will support a 50bp rate cut in the next BSP meeting. In other good news, 4Q auction schedule also comes out, which shows that BTR is mostly done with its borrowing for the year, and reducing borrowings dramatically. All these coincided to bring local yields firmly below the 6% resistance level. Kneejerk reaction to the RR cut actually had 5y R518 lifted at 5.5 but levels eventually settle at 5.65. 10y 1072 also reached a low of close to 5.5 but settles at 5.7.

In the US, the big news was the 50bp rate cut and guidance for further cuts of another 50bp within the year. 10y UST falls from 3.8 to 3.65 but eventually ends around 3.7. In political news, Kamala Harris seen to defeat trump in the US presidential debate which could have ramifications in markets should democrats hold off Trump.



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