# EQUITY

Concerns over incoming US President Donald Trump's policies reverberated across different asset classes. Thus, the Philippine Stock Exchange index continued its downward bias, losing 1.3% in December. Fortunately, yearend window dressing helped the PSEi avoid a 5th straight down year as it eked out a 1.2% gain in 2024. Unfortunately, domestic stocks continue to experience net foreign outflows for their 7th straight year, hence the weakness of the Philippine stock market.

As expected, the BSP delivered on yet another rate cut in December by cutting the benchmark rate from 6% to 5.75%. November inflation coming in at 2.5% put it firmly within the BSP's target range of 2.4%. With rice prices also falling sharply, BSP Governor Eli Remolona Jr. telegraphed further rate cuts in 2025 in order to stimulate consumption and growth.

However, the bombshell came from the US Federal Reserve. While the 25 bps rate cut was in the cards, Fed Chairman Jerome Powell's remarks in the press conference that followed were not. Contrary to the Fed's own dot plot, he announced that the Fed is revising its projected interest rate cuts in 2025 from 100 bps to 50 bps. This has profound implications on everything from bond prices to FX rates. This will further entrench US dollar strength, which is detrimental to emerging market assets, including Philippine stocks and the peso. Thanks to seasonally strong OFW remittances and BSP intervention though, our currency appreciated by 1% in December, ending 2024 at 57.98 to the US dollar.

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# FIXED INCOME

December was pretty much a non-event as most traders already had closed their books for the year and spent most of the month profit taking. We did, however, see a spike in activity in the FX space to close the year as USD strengthened but onshore support kept the PHP from weakening. In geopolitics, Russia attacks Ukraine by targeting energy facilities, which caused oil prices to move higher. We also got the weird case in Korea of the President declaring martial law, only to reverse it and is now probably going to be impeached by the opposition. Locally, we also got more impeachment proceedings filed against VP Sara Duterte. The political headlines overtook the awaited Fed and BSP meetings, where both cut 25bp as expected.

In the Philippines, November CPI comes in at 2.5 vs 2.4 expected and 2.3 in October. This was caused by the nonstop typhoons hitting the Philippines and higher oil prices, but even if the print was higher than expected, it was a non-event. In its meeting, the Fed cuts 25bp and gives guidance for a slower and shallower rate cut path for 2025, only 50bp vs the 100bp of cuts expected by the market. This is probably anticipating Trump coming into office in January, and pushing through with his planned tariffs on Canada, Mexico, China etc. Meanwhile, the BSP also cuts 25bp but with a bias for more cuts in 2025. BSP raises its inflation target in 2025 to 3.4 vs 3.3 as they expect PHP depreciation to affect prices. 10y USTs resume their climb on Trump inflation trade, moving to a high of 4.6. Local bonds, with no appetite for buying, pull back bids with the 5y r518 eventually reaching 6.15 and the 10y 1072 at 6.25. USDPHP hits a high of 59 but is successfully defended by BSP and is pushed down further, eventually ending the year at 57.90.

In the US, UST ends at highs of 4.6 as market repositions with the Fed expected to slow its pace of cuts due to Trump.

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