

EQUITY

The PSEi declined further, down 9.2% YTD at 5,929.68 (-0.4% MoM), making it the worst-performing index in the region so far this year amid heightened domestic risks. Local institutions strapped for cash also had to sell securities to make room for the Maynilad IPO. This further sapped liquidity in the market, leading to higher volatility and marking the 7th consecutive month of net foreign selling amounting to PhP 5.85 billion. Net foreign flows YTD are at negative PhP 42.13 billion, including block sales.

Over the past months, corporates have been lowering their full-year guidance. The economy also saw disruptions from calamities such as earthquakes that struck Cebu and Davao Oriental with hundreds of reported casualties. Therefore, economists downgraded full-year growth forecasts to as low as 4.7%, way lower than the BSP's initial target of 5.5% - 6.5% for the year.

Government spending took a heavy blow from the investigations into the flood control corruption scandal, tempering disbursements by 9% versus the PhP1.6 trillion program for the 3rd quarter due to underspending by the DPWH. Despite the unemployment rate easing to 3.9% in August, the increase in inflation rate to 1.7% in September raised concerns about consumer spending.

Later in the month, the US Fed cut rates by another 25 bps to 3.75%-4%, bringing the interest rate differential to a narrow 75 bps. Following a subdued growth outlook, the BSP shifted to a more dovish stance, cutting the policy rate by 25 bps to 4.75% and hinting potentially more rate cuts. The Goldilocks rate had been lowered as well to 4%-5% with a growth outlook of 5.3%. This caused the Philippine Peso to sharply depreciate by 1.66% MoM to PhP 59.01 per USD which further contributed to weakness in the stock market.

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**OCTOBER
2025**

FIXED INCOME

The US shutdown continues with a deal between the republicans and democrats looking unlikely. We did not get a jobs report because of the shutdown, which would have indicated a slowdown in hiring. We did however get good news that an Israel Iran deal might be close. However geopolitical risk increased again as Trump announced he wanted to increase tariffs on China another 100% in retaliation to China imposing taxes on rare earth exports. Locally, we continue with the flood control scandal and are getting rumors of a planned military coup.

In the Philippines, Sep CPI comes in at 1.7 vs 1.9 expected on higher food prices due to weather disturbances. Markets were caught unaware however as BSP made a surprise rate cut and pivoting back to a dovish view. BSP also hinted at even more cuts in the future. From a high of 5.9 early in the month, the R519 reached 5.65 while the 10y came from a high of 6.05 to 5.9. However the USDPHP rose to a high of 59.20 as the interest rate differential with the US continued to narrow.

In the US, 10y UST was steady at 4.15 before a very divided Fed cut rates. Fed said they will also restart bond repurchases to provide liquidity to markets. 10y UST fell to 4.06

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