

EQUITY

The PSEi extended its bull run in February, breaking its year-long 6,500 resistance level. It closed 4.5% higher MoM and 9.22% up YTD at 6,611.24. This was underpinned by continuous foreign buying, which amounted to PhP 8.37 billion in February, as exposure to emerging markets increased due to the rotation of funds out of the US. This marked the 9th straight week of net foreign buying. The Philippine peso also strongly appreciated by 2.08% to 57.66/\$ as the US dollar remained subdued.

The headline inflation rate in January rose slightly to 2.0% from 1.8% in December, but still within the BSP's target range of 2-4% for 2026. Higher prices in housing, water, electricity and fuel contributed to the increase.

With manageable inflation and softer-than-expected GDP growth, the BSP decided to cut its policy rate by another 25 bps on February 19. From 6.5% in 2Q24, the policy rate has declined by 225 bps to 4.25%. The BSP signaled that this is likely the end of the easing cycle.

Earlier in the month, BSP Governor Eli Remolona assured that the economy was on track to recover by 2H26. This was supported by a rebound in business confidence, with the Philippines' manufacturing PMI reaching a 9-month high of 52.9 in January. GDP growth forecasts by the BSP for 2026 and 2027 stood at 5.4% and 6%, respectively.

Looking abroad, AI-related concerns in the US continued to weigh on major markets as these threaten disruption not just in the tech industry but also across other sectors. This has started to spill over into the Philippines as stakeholders evaluate the potential impact on the BPO industry, which accounts for bulk of the country's GDP.

Moreover, brewing tensions between the US and Iran over the latter's reported nuclear program escalated into an actual armed conflict. On February 28, the US and Israel launched strikes that killed Iran's supreme leader, Ayatollah Khamenei along with some family members and other high-ranking officials. Iran retaliated by launching attacks on Middle Eastern countries with US military bases including Israel, Bahrain, Saudi Arabia, Qatar, the United Arab Emirates and Iraq. This raised broader concerns as Iran plays a significant role in the global oil supply. Iran is the 4th largest oil producer and controls crucial shipping checkpoints such as the Strait of Hormuz through which about 20% of global oil supply passes. Around 89% of it is destined for Asian countries, including the Philippines.

**MIGUEL AGARAO**

Fund Manager (Equities)

FIXED INCOME

There were many things that happened in the month of February, but all this was shadowed by the US bombing Iran at the end of the month, which would cause utter chaos in markets in the month of March. In other news, US Supreme Court strikes down Trump tariffs, but Trump announces new higher worldwide tariffs in retaliation. Also locally, Sara Duterte announces her 2028 candidacy as president while her impeachment case is proceeding in congress.

In the Philippines, Jan CPI comes in at 2%, higher than 1.8 estimates and 1.8 previous. The BTR this month awards a new 10y jumbo bond at the low end of the range at 5.925 to good demand. Remolona announces that there may be more room for further easing. BSP then cuts rates as expected to 4.25 but expects inflation to reach 3% in 2027 while growth should return to normal by the second half of 2026. Some good news came out when BTR treasurer Almanza said that if PH is included in the JPM bond index that might trigger \$3b of inflows to the bond market.

In the US, US markets continue their fallout due to fears of AI overvaluation. 10y UST hovers around the 4.12 area but all this gets blown away when US bombs Iran, which would trigger oil above \$100/bbl and causing worldwide markets to tank.

TIMOTHY SY

Fund Manager (Fixed Income)

