

EQUITY

The extended bull run in February made a sharp turnaround in March, erasing the PSEi's YTD gains, ending at 5,948.94. The index was down 10.0% MoM, bringing the YTD performance to -1.72%. The closure of the Strait of Hormuz which led to a chain reaction of oil price hikes, an energy supply crisis, and looming high inflation amid the US-Iran war took a heavy toll on the market. This was exacerbated by the depreciation of the Philippine peso to its all-time low of PhP60.74/\$, weaker by 5.34% MoM. As a result, previously positive net foreign flows turned negative, with net foreign selling widening to PhP11.06 bn.

The war broke out on the last day of February when coordinated strikes by the US and Israel on Iran killed its Supreme leader Ayatollah Khamenei and destroyed nuclear facilities and military assets of Iran. This prompted Iran to close the Strait of Hormuz, a vital waterway where 26% of all seaborne oil flows annually with 89% destined for Asia.

A series of retaliatory actions followed, leading to drastic market volatility and oil price surges. By the end of the first week alone, US and Brent crude oil prices already went up by 40% then corrected by 11% on the second week when President Donald Trump said that the war would end very soon. However, this relief was short-lived as tensions further escalated after attacks in the Gulf resulted in more deaths and the destruction of key energy infrastructure, including the world's largest liquefied natural gas export plant in Qatar. These push-and-pull reactions went on in the following weeks causing both Brent and US crude oil prices to close above \$100/bbl, up 55.6% and 51.3% MoM, respectively.

Meanwhile, the domestic scene turned for the worse as local fuel prices rose successively, with average diesel and gasoline prices increasing by 112% and 73% to PhP128.8/L and PhP94.3/L, respectively by the month-end. LPG prices, on the other hand, went up by 2.39% to PhP40.74/L, or as much as PhP825 to PhP1,135 per 11-kg tank. Ripple effects were immediately felt by consumers as transport and utilities account for 14% of the CPI basket, while food comprises 35%.

To secure fuel supply, the government attempted to negotiate with neighboring countries including Russia, Thailand, Japan, and Singapore. With this, the Department of Energy (DOE) was able to stretch the fuel inventory to as much as 50 days or until end of May.

Other responses undertaken by the government included the implementation of WFH setups for government employees, the suspension of fare hikes, a price freeze by food manufacturers for up to 2 months, fuel subsidies, and mall hours adjustments. Major airlines also canceled flights. On OFW repatriation, around 4,200 out of 2.4 million OFWs in the Middle East were brought home.

President Ferdinand Marcos Jr. also signed a law allowing him to halt fuel excise tax for 3 months to up to 1 year if the average Dubai crude oil price exceeds \$80/bbl for 1 month. However, the suspension has yet to be decided.

Moreover, the BSP held an off-cycle meeting on March 26 where it kept its policy rate at 4.25% after 6 consecutive 25bps cuts. The BSP's GDP forecast for FY2026 was revised down to 4.4% from the initial 5.4% while 2027 growth forecast remained unchanged at 5.9%. It also raised its inflation forecast for 2026 and 2027 to 5.1% from 3.6% and 3.8% from 3.2%, respectively.

Headline inflation in March came in higher, surging to 4.1% from 2.4% in February. This was driven by higher transport inflation, which increased to 9.9% from -0.3% last month. Food and non-alcoholic beverages prices also increased to 3% from 1.8% in February.

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FIXED INCOME

March was the start of the Iran war, with the US killing Iran Supreme Leader Khameni and Iran retaliating by attacking neighboring countries and closing the Strait of Hormuz, sending oil prices up \$40 to as much as \$120/bbl and sending the world into crisis. At the end of the month however, Trump tries to calm markets by saying that it was "mission accomplished" and that the US might get out in about 2 weeks. This has oil prices settling back to \$100/bbl and markets rally.

In the Philippines, Feb CPI comes in at 2.4% as expected and higher than the 2% previous, but all eyes will be on March inflation and the effects of the higher oil prices. After awarding the new 10y bond at 5.925, this reaches as high as 7% on extremely low volume and wide bid offer spreads. Shorter dated bonds like the r519 reached a high of 6.875. The BSP surprised the market also by holding an off-cycle rate setting meeting before ultimately deciding on holding off on a rate hike to address impending inflation. USDPHP breaks above 60.

In the US, the Fed decides to hold in its meeting, but still says that 1 cut is likely for the rest of 2026. 10y UST hits around 4.4 before eventually settling at 4.3.



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