PHILIPPINE EQUITIES

The PSEi gained in June with a sharp ascent mid-month following the 14-point peace deal between the US and Iran. The index closed at 6,037.17, up 4.7% MoM, erasing almost all of its YTD losses. Net foreign outflows in June also slowed down to PhP1.36 billion. This was mainly driven by cautious optimism on the reopening of the Strait of Hormuz and better-than-expected May inflation. The announcement of GLO's Mynt (Gcash) and TEL's Vitro REIT Inc.'s IPO also invigorated the market. However, positive sentiment was tempered by downgraded GDP growth forecasts and the shift to a negative outlook on local banks by Moody's and Fitch.

Headline inflation in May eased to 6.8% from 7.2% in April, bringing the YTD average to 4.5%. This came in below the BSP's forecast range of 7.1-7.9% and analysts' expectations of up to 9%. Tempered inflation was mainly due to a slower increase in transport and utilities. Following this, no off-cycle rate hike was made. The BSP instead delivered a widely expected 25 bps increase during its scheduled monetary policy meeting. However, BSP Governor Eli Remolona Jr. signaled that the BSP would raise interest rates until inflation falls back within the 2.0-4.0% target.

Meanwhile, the Fed kept interest rates unchanged while unexpectedly adopting a hawkish stance. This led to dollar strengthening, putting pressure on most currencies including the Philippine peso. Mid-month, the peso appreciated to around 60/$ before depreciating back to 61.36/$.

The announcement of the peace deal between the US and Iran caused the PSEi to surge by 6.14% in one day. As part of the agreement, the Strait of Hormuz was reopened. Average traffic through the Gulf in the latter part of the month recovered to nearly half of the average daily traffic pre-war. This caused crude oil prices to drop around $70/bbl or near pre-war levels. This was positive especially for an import-dependent country like the Philippines as inflation concerns eased.

GLOBAL EQUITIES

The MSCI All Country World Index (MXWD) benchmark pulled back from its all-time high to 1,120.4, down 0.92% MoM. Global markets in June saw heightened volatility as investors took the opportunity to reevaluate their portfolios. This was amid brewing AI and semiconductor valuation concerns, a shift in monetary policy, and geopolitical developments. The US' Nasdaq and S&P 500 turned losers while the US' Dow Jones, Japan's Nikkei 225 and Taiwan's TAIEX remained winners MoM.South Korea's KOSPI was flat while European markets were also resilient.

After a long rally in the AI-tech space, investors finally took profit which sparked a broad selloff in AI and technology-heavy markets. Semiconductor and chip stocks had a healthy correction after Micron's strong earnings. However, AI hyperscalers and technology stocks experienced a sharp selloff as investors started to question massive capex spending, demand, and earnings sustainability.

Meanwhile, the Fed surprisingly turned hawkish in the first meeting presided by new chair Kevin Warsh. Key policy rates were kept at 3.5-3.75% but signaled a higher-for-longer interest rate outlook. This led to US dollar strengthening, putting downward pressure on precious metals and most currencies.

On the other hand, there was renewed optimism in the broader market following the peace deal between the US and Iran. The Strait of Hormuz finally reopened causing an uptick in vessel traffic through the Gulf. As a result, crude oil prices plunged to around $70/bbl, or near pre-war levels. This helped ease inflation concerns globally.

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FIXED INCOME

June continues to be very active in terms of news. We saw all out war between the US and Iran averted and then suddenly a deal was reached, which brought oil briefly below $70/bbl after hitting above $100/bbl, close to below prewar levels. Meanwhile new Fed Chair Kevin Warsh has his first rate setting meeting, where the Fed ultimately kept rates steady. And locally, Iglesia ni Cristo holds a surprise rally on EDSA, creating confusion and chaos as they rally to prevent the arrest of Senator Marcoleta on plunder charges.

In the Philippines, May CPI comes in at 6.8% vs expected 7.8% as oil prices have come down from its highs and we see "normal" prices at the pumps. However, food inflation is rising fast, and inflation is still well above BSPs 2-4% target. As expected, BSP raises rates by 25bp to 4.75, a positive development as market was actually expecting a 50bp hike, though BSP still guides for more hikes down the road. Later in the month, a deal to end the war is announced, sending local yields below 7% with the short end r518 taken at 6.3 and an oversubscribed 7y auction averages at 6.77. Meanwhile 10y 1074 taken at 6.9. BTR also successfully floats a new USD ROP at around 4%.

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