PHILIPPINE EQUITIES

The PSEi performed well in July as it rose 3.30% MoM to 6,236.44. YTD returns turned positive to 3.03%. The increase was mainly driven by net foreign inflows amounting to PhP 4.10 billion, ending 4 consecutive months of net foreign selling since the US-Iran war began. This was supported by a stronger Philippine Peso which appreciated by 0.20% MoM to PhP61.20/$. The market largely benefited from the rotation out of AI and technology names and into beaten-down traditional markets. Easing domestic inflation also helped lift the index. However, renewed geopolitical tensions and some regulatory overhangs remained a concern. Adjustments to the index following the August rebalancing also caused significant outflows.

Headline inflation in June eased further to 6.4% from 6.8% in May, bringing YTD inflation to 4.8%. This was mainly due to lower food and fuel prices. Meanwhile, an PhP85 or 12% increase in the daily minimum wage in Metro Manila was approved, making the largest hike since 1999. BSP Governor Eli Remolona Jr. raised concerns over the potential second-round effects on prices as the increase was twice the bank's expectation. Nevertheless, later in the month, he assured that a 50-basis-point interest rate hike at the policy meeting on August 27 is unlikely.

Moreover, President Ferdinand Marcos Jr. delivered his 5th State of the Nation Address (SONA). Among the notable points was the proposed overhaul of the Electric Power Industry Reform Act (EPIRA) which aims to remove system loss charges passed on to consumers. However, this sparked concerns as it would reportedly result in tens of billions of pesos in lost revenues for distribution utilities. It could also be detrimental, especially to smaller players as they could go bankrupt

Following the results of the August index rebalancing, the market recorded PhP1.04 billion in net foreign outflows on the last trading day of the month. MYNLD replaced CNVRG in the main index while CNVRG and PX were added to the PSE MidCap Index, replacing AUB. AEV was also included in the PSE Dividend Yield Index.

On the global front, the Philippines, along with other emerging markets, benefited from the rotation out of semiconductor and AI names and into the broader market. Meanwhile, crude oil prices surged in July as geopolitical tensions in the Middle East reignited. WTI crude oil prices jumped to $87/bbl from its bottom of $68.7/bbl at the start of the month, raising concerns on inflation. However, the Fed kept its policy rate unchanged at 3.50% to 3.75% during its meeting on July 29. Bond yields rose after while the dollar weakened..

JULY 2026

GLOBAL EQUITIES

The MSCI All-Country World Index (MXWD) ended flat MoM as investors navigated heightened volatility driven by renewed tensions in the Middle East, shifting sentiment toward AI and technology stocks and Fed rate expectations. Major US indices were mixed as S&P 500 was slightly down by 0.13%, while tech-heavy Nasdaq plunged by 6.6% MoM. Dow Jones was slightly up by 0.32% MoM. On the other hand, Asian indices were battered due to heavy exposure to semiconductor and memory chips. South Korea's KOSPI sharply declined by 22.2% MoM. Taiwan's TAIEX was also down by 6.5% while Japan's Nikkei 225 fell by 8.1% MoM. Meanwhile, European markets which have significant exposure to banks outperformed.

WTI crude oil prices reached a bottom of $68.6/bbl before the conflict in the Middle East re-escalated. Exchanges of military attacks between the US and Iran led to President Donald Trump to declare an end to the ceasefire. This caused crude oil prices to surge by 26.9% to $87/bbl before closing the month at $84.7/bbl, up 21.8% MoM.

Meanwhile, high-flying AI, semiconductor and chip names fell significantly as investors rotated into the broader market including financials, industrials, consumer discretionary, and other cyclical sectors. Asian indices saw the biggest impact especially South Korea's KOSPI following massive selloff in Samsung and SK Hynix. SK Hynix's US listing also put downward pressure on its Korean-listed shares. Risk appetite toward AI and technology stocks deteriorated amid concerns over whether massive capital spending could generate sufficient returns. On top of this, Chinese AI startup Moonshot AI introduced a new AI model that is comparable to the Anthropic's Claude and OpenAI's ChatGPT at a significantly lower cost, further challenging the narrative surrounding big capex spending. However, the sector reversed later in the month after Amazon's earnings reportedly outpaced its capex growth, easing investor concerns. Revenue from Amazon's cloud business, AWS, surged by 37% YoY, exceeding expectations. Other major cloud providers, such as Microsoft and Alphabet, also showed better-than-expected revenues. This helped push South Korea's main index to a record one-day gain of 18% after it slumped to a record monthly drop due to panic selling.

Moreover, the Fed kept its policy rates unchanged again at 3.5% to 3.75% during its FOMC meeting on July 29. This sparked concerns especially on the Fed's ability to manage inflation as upward pressures persisted coming from the spike in energy prices, food inflation risks from El Nino and AI infrastructure spending. This contributed to a weaker dollar while emerging market currencies strengthened.

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JULY 2026

FIXED INCOME

After a short respite from the War, the US and Iran are back at it again. Trump this time says he is not inclined to reach a deal anymore. Oil prices reach the 100/bbl mark again, and Trump floats the idea of the US imposing a 20% protection tax on ships the US escorts through the Strait of Hormuz.

In the Philippines, June CPI comes in at 6.4% vs expected 6.5%, and lower than 6.8% in May, showing that prices may have peaked already. Oil prices have stabilized but the recent developments in Iran are putting pressure on oil prices again. Local bonds given for much of the month, with the shorter end favored while 5y and above are now firmly above the 7% mark, with the 5y 770 up to 7.25 from around 6.8 at the beginning of the month. The market is now looking at next month's BSP meeting where the consensus is for a 25bp rate hike to bring the key rate to 5%.

In the US, 10y UST climbs to 4.7 as the war intensifies until some news that another possible ceasefire deal could be negotiated. The 10y UST eventually ends at 4.7 as Fed holds rates steady at its rate setting meeting, but 3 members voted to raise rates already, signaling a divided Fed.

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