

PHILIPPINE EQUITIES

The PSEi closed at 5,679.48, near its immediate support level, down 4.6% MoM and bringing its YTD return to -6.17%. The decline was primarily driven by the surge in bond yields globally which weighed on equities, the depreciation of the peso and economic growth downgrades. The Philippine Peso hit a new record low of 62.92/\$ before ending the month at 62.64/\$. Net foreign outflows for the month amounted to PhP8.44 billion. Trading volume was tepid as investors awaited Mynt's record breaking PhP 61 billion IPO in October.

Long term treasury bond yields globally surged to multi-year highs as fiscal concerns and inflationary pressures increased expectations of further rate hikes by central banks. The average government bond yield of the G7 developed economies reached its highest level since 2000. The Fed raised its rates by 25 bps, its first hike in 3 years. This pushed the US 10-yr Treasury yield above 5.00%, its highest since 2007. The dollar also appreciated significantly, putting downward pressure on the Peso. The BSP is widely expected to raise rates following the Fed's rate hike.

Headline inflation in August eased to a 5-month low of 6.1%, which was in line with consensus and within the BSP's forecast range of 5.5-6.5% for the month. The decline was due to lower inflation in food and non-alcoholic beverages as well as utilities. However, crude oil prices rose again above \$100/bbl, the highest since May as both the US and Iran launched huge wave attacks on ships along the Strait of Hormuz. Houthi rebels also threatened oil supply blockade in the Red Sea coming from Saudi Arabia.

Meanwhile, economic growth outlook weakened as the Asian Development Bank and S&P Global Ratings downgraded their GDP forecasts for the Philippines this year. ADB lowered its GDP growth outlook to 3.3% from 3.8% while S&P decreased its forecast to 2.9% from 4.1%.

GLOBAL EQUITIES

Global markets turned volatile, with most indices ending in the red in September as rate hikes, fiscal concerns, surging bond yields, unrest in the Middle East and persistent inflationary pressures weighed on equity markets. This was partially offset by positive sentiment toward AI and technology. The MSCI All-Country World Index (MXWD) benchmark was down by 1.26% MoM. US indices were mixed as the S&P 500 and the Nasdaq outperformed the benchmark while the Dow Jones was down MoM. Major Asian indices- South Korea's KOSPI, Taiwan's TAIEX, and Japan's Nikkei 225 were all up MoM. Meanwhile, European markets, including Germany's DAX, UK's FTSE 100 and Europe's STOXX 600, declined MoM.

Investors turned cautious amid fiscal concerns such as ballooning government debt, widening budget deficits and central bank's ability to anchor inflation. As a result, bond yields across the G7 developed economies- the US, UK, France, Germany, Italy, Canada and Japan - reached their highest levels since 2000. The European Central Bank had its second rate hike ahead of the Fed. The Bank of Japan also raised its rates by 25 bps to 1.25%, its highest level in 31 years, in order to anchor inflation expectations and the sharply depreciating Japanese yen. The Fed unanimously voted for a 25-bps rate hike, bringing the target range to 3.75% to 4.00%. This caused the dollar to significantly appreciate, to the detriment of other currencies such as the Philippine peso. A number of other currencies hit new all-time lows in September.

Meanwhile, the US core CPI came in slightly higher than expected. Crude oil prices also surged above \$100/bbl due to a huge wave of attacks on ships along the Strait of Hormuz by the US and Iran. There were also concerns on oil supply constraints coming from Saudi Arabia as Iran-backed Houthi rebels threatened to take control of the area.

Despite higher rates, AI and technology stocks were up driven by positive demand outlook for semiconductors and memory chips following Meta's introduction of Muse Charm, utilizing its agentic AI, Muse. Higher yields weighed on interest-rate sensitive sectors such as financials and real estate, with high dividend yield names also underperforming. Consumer stocks likewise tumbled as inflation remained stubbornly persistent.

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FIXED INCOME

The Fed delivers a hawkish message in Jackson Hole, telegraphing a renewed hiking path. Meanwhile, tensions continue in the Middle East, as oil rises to the \$100/bbl level again. Meanwhile UST yields spike to historic highs as strong US data shows that the Fed may have to hike even more to keep prices in line.

In the Philippines, September CPI comes in at 6.1% in line with expectations and lower than 6.1% in July. However with BSP Gov Remolona stating that the BSP would not do anything to defend the peso, USDPHP depreciates to as low as 62.85. Local bonds would track the weakness in UST, exacerbated by sharp depreciation causing stop losses to trigger. Bond yields would rise about 50bp to firmly rise to above 7% for most tenors. BTR would initially cancel a jumbo bond issuance, but then surprise the market by going ahead with a shorter 2.5y RTB, which would come out at 6.875%.

In the US, Fed does indeed hike rates by 25bp as expected. Strong PMI data shows that US manufacturing is expanding at record levels, causing the 10y UST to hit at high of 5.2.

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