2019 2Q Market Outlook

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You first.

Equities

After 2018's 12.76% decline, the Philippine Stock Exchange Index (PSEi) recovered some of its losses in 1Q19 after improvements in inflation, exchange rate and interest rates were seen. Easing tension on the US-China trade war also buoyed the positive market sentiment after US President Trump postponed the imposition on new tariffs vs. China. The PSEi posted a 454.91 point gain or 6.09% for the quarter to close at 7,920.93 from 2018's close at 7,466.02.

The Consumer Price Index (CPI) continued to decelerate, which was recorded at 3.30% in March as gains in food and transport prices eased from 5.10% in December 2018. The latest inflation report is already within the 2.0%-4.0% target range of the Bangko Sentral ng Pilipinas (BSP). Dovish statements from both the BSP and the US Federal Reserve also made market players take on more risks. The appointment of former Budget Secretary Diokno was welcomed by the market as he is known to support expansionary policies. During the recent US Federal Reserve meeting wherein it maintained its Fed Funds Target Rate, US Fed officials mentioned that they can be patient in raising interest rates.

The banking sector is expected to benefit the most from any easing action by BSP as this could improve its net interest margin. A cut in policy rates and in reserve requirement are both in the table after the BSP increased its borrowing rate by a total 175 basis points last year.

OUTLOOK

With improving macroeconomic fundamentals and with Philippine Gross Domestic Product (GDP) expected to grow between 6.0%-7.0% for 2019, we are maintaining our 2019 PSEi target of 8,400 - 8,600 which is equivalent to a PE ratio of 17.3x to 17.7x 2019 earnings. After selling down their position in 2019, net foreign buying was recorded for the 1st three months of the year totalling Php27.80B.

Fixed Income

PHP FIXED INCOME

With the confirmation that inflation has peaked at 6.70% during the last quarter of 2018 as evidenced by the continued deceleration of CPI figures from 5.10% year end 2018 to 4.40% in January, 3.80% in February and 3.30% in March, local bond rates drifted lower with the medium-long term part of the curve out-performing short term and the belly. As policy rates still stands at 4.75%, room for further improvement in short term yields was somehow limited.

Outlook

Given better inflation expectations, newly appointed BSP Governor has mentioned that a cut in reserve requirements and policy rates are both in the table. A lowering in the policy rates could provide the catalyst for the short-term to belly part of the curve to rally.

USD FIXED INCOME

With the US Federal Reserve turning dovish, markets are now looking at a “no rate hike” scenario from the previous two to three hikes for the year. With this, US Treasury yields continued to drop from around 2.70% in 2018 to 2.40% in March 2019.

The 10-year Treasury yield sank to as low as 2.37% last March 27. With the rally, an inverted yield curve was seen during the month. This created recession fears as previous yield curve inversions led to a recession. Comments from St. Louis FED President Bullard that he expects growth to bounce back alleviated fears of market players. Other members of the Fed also downplayed fears of recession being signaled by the markets. For the month of March, ROP 24 closed at 105.72 up by 68 basis points while ROP 41 was up by 347 basis point to close at 101.58.

Outlook

Statements from the US FED and data regarding the health of the US economy will continue to give direction for the fixed income market. ROP prices will also be influenced by movement in US Treasury yields. Given the dovish statements from US FED, we expect ROP yields to move with a downward bias.