2019 Market Outlook

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Equities

After the first quarter 2019's 6.09% or 454.91 point gain, the Philippine Stock Exchange Index (PSEi) generally moved sideways for the quarter but managed to close marginally higher at 7,999.71, up by 1.01% or 79.69 points from March's closing of 7,920.93. On a year-to-date basis, the PSEi is up by 533.69 points or 7.15%.

Foreign funds continued to be net buyers of Philippine equities. For the first half of 2019, net foreign buying amounted to Php39.1B, a sign that foreign market players continue to accumulate Philippine shares given the positive macro-economic picture of the country.

Tensions brought about by the geo-political concerns, particularly the trade war between the United States and China, continued to dominate the headlines. Trade tensions reached new heights when US President Donald Trump announced an increase in tariffs on the remaining USD200-billion worth of imports from China. This was promptly followed by a sell-off across the globe.

Despite the above, the PSEi managed to post gains as inflation continues to decelerate. For the first half of 2019, Philippine inflation averaged 3.40% after the June Consumer Price Index (CPI) was recorded at 2.70%, well within the Bangko Sentral ng Pilipinas' (BSP's) target range of 2.0% to 4.0%. This gave the BSP Monetary Board the elbow room to lower policy rates and cut its Reserve Requirement Ratio (RRR) for banks.

News on the country's disappointing first quarter 2019 Gross Domestic Product (GDP) growth likewise weighed on the market. At 5.6%, this broke the record 14 straight quarters wherein the country performed above 6% level. This, however, is considered a one-off as this was mainly due to the delay in the passage of the 2019 national budget.

Towards the end of the month, investor optimism was further buoyed after it was announced during the G20 summit held in Osaka, Japan that the US and China will resume trade talks.

Equities

OUTLOOK

We continue to be positive on the direction of Philippine equities for the rest of the year given the positive macro-economic picture of the country. Philippine GDP is expected once again to rise above the 6.0% level. The US Fed's recent pronouncements point to an accommodative stance. Another policy rate cut as a response from BSP may likely be the catalyst to see PSEi break decisively past resistance levels. We are maintaining our 2019 PSEi target of 8,400 - 8,600.

Fixed Income

As inflation continued to decelerate, local bond rates continued to drift lower. Benchmark yields (BVAL) went down by an average of 80 basis points for the quarter. With inflation on the downtrend, the BSP cut its overnight policy rate by 25 basis points from 4.75% to 4.50%. The BSP also reduced the RRR for universal and commercial banks from 18% to 16%. The move is estimated to unlock Php200 billion in the local economy. RRR for mid-sized and small banks was likewise reduced from 8.0% to 6.0%.

The reduction of the Treasury Bill offering for the third quarter of the year could also provide support particularly on the short end of the curve.

From two to three rate cuts for 2019 at the beginning of the year, to a "no rate hike" scenario at the end of the first quarter, market players are now looking at the possibility of at least one rate cut from the US Fed this year as US Fed officials continued to be dovish as they have acknowledged the need to support the economy due to the effects of the US – China trade war.

The yield of the benchmark 10-year US Treasury Bond continued to decline as it touched below the 2.0% level towards the end of June, the lowest since 2016 before closing at 2.007%. With US Treasury yields continuing to trend downward, Republic of the Philippines (ROP) yields followed suit and are now trading near year-to-date highs. The positive movement of ROP bonds was further buoyed by the credit rating.

Fixed Income

OUTLOOK

With inflation expectations continuing to be on the downside, local bond yields may continue to decelerate as this could give the monetary authorities the ammunition to further cut policy rates. For the remainder of the year, analysts are looking at two 25 basis point rate cut from the BSP to bring the overnight rate to 4.0%. In addition, BSP Gov. Diokno has hinted that additional RRR cuts are on the table.

ROP bonds prices may continue to mirror the movement of US Treasury yields. US economic indicators will also influence the movements of emerging markets bonds. Some correction could happen given the price appreciation we have seen in recent months.