

PH STOCKS DECLINE ON WEAK GROWTH; BONDS GAIN ON BSP RATE CUTS

Year-end Review: January - December 2025

What Happened Last Year

U.S. Market

- Stocks posted a third consecutive year of double-digit gains, supported by stronger economic growth expectations and optimism around the AI sector.
 - GDP growth projections improved to 2.0% (up from a low of 1.4%), despite initial concerns over the impact of Trump's tariffs.
 - Magnificent 7—Apple, Microsoft, Alphabet, Amazon, NVIDIA, Meta Platforms, and Tesla—which collectively represent about 32% of the S&P 500 advanced 24.6% for the year.
- Bonds delivered positive returns following Fed rate cuts, driven by easing inflation and concerns over a weakening labor market.
 - The Fed lowered policy rates by 0.75% in 2025 as inflation expectations eased to 2.8% from a peak of 3.2%.
 - 2025 unemployment rate increased from 4% in January to 4.6% in November.

PH Market

- Local equities declined on economic growth downgrades, driven by higher US tariffs and reduced government and private sector spending following a corruption scandal.
 - The U.S. imposed a 19% tariff on Philippine imports, raising fears of a potential trade slowdown.
 - GDP growth slowed to 5% in the first nine months, missing the 6-8% government target.
- Peso bonds yields ended 2025 almost flat, rising in the first half of 2025 on tariff and geopolitical risks but falling in the latter half as the BSP eased policy amid subdued inflation and weak growth.
 - BSP cut rates by 1.25% for the year.
 - Inflation for the first 11 months of 2025 averaged 1.8%, below the BSP target of 2-4%.
- The Philippine peso depreciated in 2025, swinging from early-year weakness above 58 on strong dollar demand from elevated U.S. rates to mid-year strength near 55 as tariff-driven growth concerns softened the dollar. By year-end, however, the peso reversed course and ended back above the 58 level.
 - PHP depreciation resumed to new record low of 59.22, driven by rising oil demand amid Middle East tension and persistent domestic growth worries.

Asset prices Year-to-Date (YTD)

Asset	YTD as of Dec 31, 2025	Current Level as of Dec 31, 2025
	Rate	Price
10Yr US Treasury Yield	▼0.40%	4.17%
10Yr PHP Benchmark Yield	▼0.10%	6.07%
Philippine Peso vs. US Dollar	▼1.63%	PHP 58.79/USD
S&P500	▲16.39%	6,845.50
PCOMP	▼7.29%	6,052.93

What To Expect This Year

- As the BSP nears the end of its easing cycle, policy rate adjustments will be approached with greater caution. While inflation may pick up as base effects fade and FX risks re-emerge, it is expected to be contained within 2-4% target.
- Macro indicators point to a weak Q4 GDP—soft PMI, labor data, imports, government spending, and cautious corporate guidance—with potential spillover into early 2026. This suggests continued pressure on the local equity market and possible downward revisions to growth forecasts.
- While normalized government spending and improving consumer confidence could help stabilize growth, political dynamics may weigh on sentiment. Declining popularity of the current administration could lead to cautious fiscal execution, making meaningful improvement more likely in the second half of 2026.



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