EQUITIES, BONDS RETREATED ON FRESH TARIFF THREATS, US RATING DOWNGRADE, AND THE "ONE BIG BEAUTIFUL BILL"

Weekly Review: 19 to 23 May 2025

What Happened Last Week

- US equities declined on President Trump's tariff rants. US bond prices also fell as the fiscal implications of "One Big Beautiful Bill" amplified Moody's US credit rating downgrade.
  - Trump recommended to raise EU tariffs from 20% to 50% after complaining that trade negotiations have stalled. He also threatened a 25% tariff on non-US-made Apple iPhones
  - Yields spiked as markets worried that the extension of the 2017 tax cuts under the "One Big Beautiful Bill" will lead to higher government debt.
- Local yields followed US rates higher. PCOMP fell on concerns over the overhaul of President Marcos' Cabinet.
- The Philippine peso appreciated as concerns over US growth and fiscal health outweighed higher US rates.
- Asset prices Week-on-Week (WoW) and Year-to-Date (YTD)

	Week-on-Week May 16 to 23, 2025	YTD as of May 23, 2025	Current Level as of May 23, 2025
Asset	**Rate Change**		**Rate**
10Yr US Treasury Yield	▲0.03%	▼0.06%	4.51%
10Yr PHP Benchmark Yield	▲0.10%	▲0.09%	6.27%
	Price Change		**Price**
Philippine Peso vs. US Dollar	▼0.69%	▼4.49%	PHP55.25/USD
S&P500	▼2.61%	▼1.34%	5,802.82
PCOMP	▼0.81%	▼1.77%	6,413.10

What To Expect This Week

Quiet with a downward bias for both Philippine bonds and the PCOMP as fears of higher US rates weigh on markets. However, we expect Philippine bonds to hold up better than US counterparts. Benign inflation forecasts, prospects of BSP rate cuts, and steady bond supply to lend support to Philippine bond prices

INVESThesaurus

Why will the US credit downgrade and rising government debt cause interest rates to rise?

Investors demand higher returns for the added risk of lower rated bonds. Higher government debt impact rates in two ways:

1. They borrow more (and pay more) to raise funds to pay for excess spending
2. Higher indebtedness invites more credit downgrades.