WEEKLY REVIEW (03/31/25 – 04/04/25)

What Happened Last Week

- US equities fell while bonds gained. Investors flocked to safer assets after Trump unleashed his reciprocal tariffs.
- Local equities fell but bond prices rose as lower-than-expected inflation increased the likelihood for a rate cut this April.
    - March PH inflation eased to 1.8% year-on-year (y/y), slower than consensus estimate of 2%.
- Asset prices WoW changes:
    - The 10-year US Treasury yield fell to 3.99% from 4.25%.
    - The 10-year PHP benchmark yield decreased to 6.10% from 6.22%.
    - PHP appreciated against USD to 56.821 from 57.381.
    - S&P 500 plunged by 9.1% to 5,074.08
    - The PSEi shed 1.0% to 6,084.19

What to Expect This Week

- Local equities will likely remain volatile with a downward bias.
    - Global GDP projections are being revised lower.
    - Investors await signals on whether the US trading partners will impose a tit-for-tat tariffs.
- Local bond prices are expected to rise further as persistent negative risk sentiment favors safer assets.
- The BSP is expected to cut policy rates from 5.75% to 5.50% on 10 April.
- March US CPI is expected to moderate to 2.6% y/y from 2.8% last month.

Commentary

US President Trump announced a tariff plan that was more severe than what the markets anticipated. The plan slapped 54% tariffs on Chinese imports and 20% tariffs against the EU. In ASEAN, Vietnam is subjected to 46% tariffs, Thailand 36% and Indonesia 32%. China has fired back by imposing additional 34% tariffs on all US goods.

The result? A global stock sell-off with investors flocking to the safety of government bonds. Important to note that Philippine stocks fared better than the US markets. On a US dollar basis, Philippine stocks fell only by 0.97% relative to a 9% decline in S&P500.

What would account for that? First, the incremental tariff for the Philippines was relatively lower at 17%. Second, electronics, which accounts for 44% of Philippine exports, is exempt from the reciprocal tariff program. Finally, the country may also benefit if China tries to dump its exports, formerly intended for the US, to other markets like the Philippines.

Is the Philippines home-free then? Unfortunately, volatility is here to stay but local investors can take comfort that the Philippines is insulated from trade war. Both local bond and equity markets offer a good value at current levels.