



Market Commentary



➔ The PSEi fell by 50.96 points or 0.78% week-on-week and settled at 6,450.04 to end the year. The benchmark index took a breather and succumbed to investors' profit taking and year-end window dressing. The Philippine Peso strengthened to ₱55.37 from ₱55.40 against the US dollar. Foreigners had a net buy of ₱335.82 million last week. Holding Firms (-4.11%) was the lone sector to decline last week, while Mining&Oil (+4.80%) had the most gains. AGI (+15.69%) and LPC (+11.11%) were the top stock gainers, while AEV (-11.07%) and SMC (-8.02%) were the main laggards. Some notable developments were the following:

- The Philippines saw a notable surge in specula(ve funds in November, resulting in a net inflow of \$672.86 million, the highest in four months, according to data from the Bangko Sentral ng Pilipinas (BSP). This turnaround from October's net outflow of \$328.19 million was primarily attributed to the significant drop in global crude oil prices, contributing to a decrease in global and local inflation. The Philippines recorded a net outflow of \$42.13 million from January to November, highlighting ongoing challenges in the broader foreign portfolio investment landscape.
- The Philippines government reported a reduced budget deficit of ₱93.3 billion in November, marking a 25% decline from the same month the previous year. This improvement was driven by a 3% increase in total revenue collections, reaching ₱340.4 billion, mainly due to a significant expansion of non-tax revenues. Government spending for the month decreased by nearly 5% to ₱433.6 billion. For the 11-month period, the budget deficit eased by 10% to ₱1.11 trillion, with cumulative revenue collections rising by 9% to ₱3.56 trillion. While a narrower deficit indicates spending beyond revenue earnings, the pace has slowed down considerably. In November, 84% of revenues came from tax collections at ₱286 billion, a decrease of 8.9%. Non-tax collections, however, more than tripled to ₱54.4 billion.

INDICES

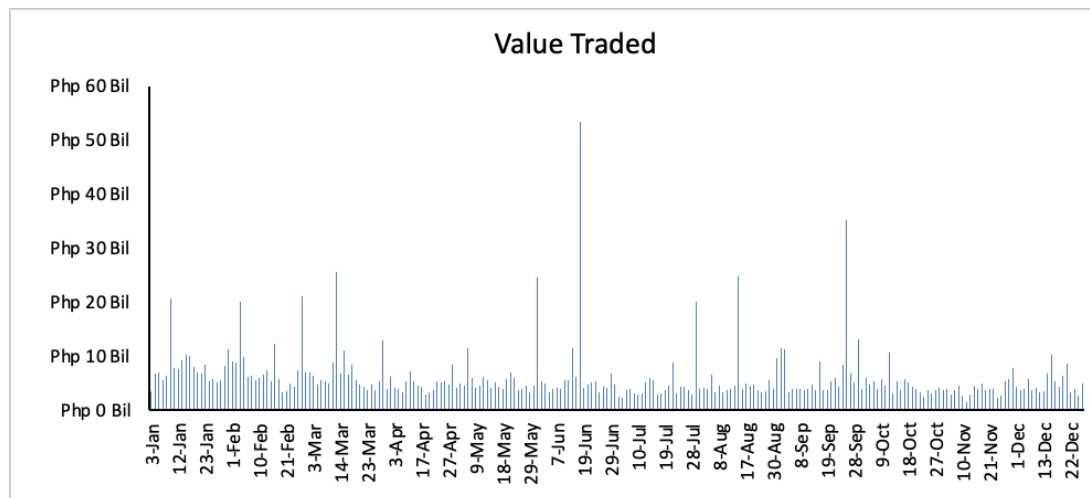
Index	Prev	Last	% Chg
PSEi	6,501.00	6,450.04	-0.78%
All Shares	3,427.30	3,424.59	-0.08%
Financial	1,733.21	1,738.88	0.33%
Industrial	8,916.57	9,075.91	1.79%
Holding Firms	6,367.59	6,106.00	-4.11%
Property	2,850.15	2,854.94	0.17%
Services	1,585.48	1,604.99	1.23%
Mining & Oil	9,542.74	10,000.43	4.80%

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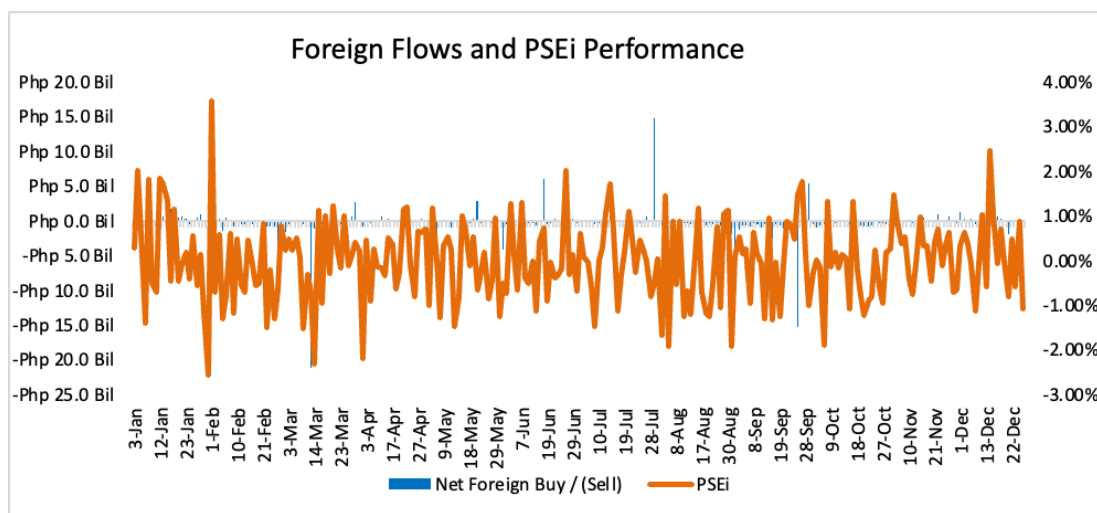
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- ➔ Market turnover averaged ₱3.87 billion in the final week of trading (3-day week), lower than the ₱5.58 billion average tallied in December 18-22.



- ➔ Last week logged a net foreign buying of ₱335.82 million, contrary to the net foreign selling of ₱712.76 million in the previous week.



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Key Economic Figures



- ➔ **10-Year US Treasury yield.** The yield on the US 10-year Treasury note saw a slight uptick to the 3.86% mark on the final trading day of 2023, maintaining proximity to the 5-month low of 3.78% recorded on Wednesday. This flat close capped off a volatile year in which markets closely monitored signals about potential rate cuts from the Fed in the coming year. Fed funds futures suggest that 85% of the market has positioned for a rate cut by March, leading to increased demand for Treasury securities across various durations. The 10-year note's yield has dropped by 120 basis points since reaching a 16-year high of 5% in October, reflecting a significant shift from the Fed's earlier stance advocating for higher interest rates. The year-end bond rally was further supported by recent data indicating a slowdown in PCE inflation and higher-than-expected unemployment claims. (*TradingEconomics*)



- ➔ **China NBS manufacturing PMI.** The official Manufacturing Purchasing Managers' Index (PMI) in China unexpectedly declined to 49.0 in December 2023 from the previous month's 49.4, falling short of market expectations set at 49.5. This marks the third consecutive month of contraction in factory activity, representing the sharpest pace of decline in 6 months. The weakening recovery is attributed to challenges posed by property market weaknesses, deflationary risks, and increasing global headwinds. New orders contracted for the third straight month, foreign sales declined for the ninth month, and buying activity remained subdued. Employment saw its tenth consecutive month of decline, with the rate of decrease being the most significant in the sequence. Output growth hit a 5-month low, while input cost inflation increased, and output prices fell further. Despite these challenges, business sentiment reached its highest level since February. (*National Bureau of Statistics of China*)

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For the Week

TOP GAINERS		TOP LOSERS	
AGI	15.69%	AEV	-11.07%
LPC	11.11%	SMC	-8.02%
LR	10.04%	JGS	-6.27%
RCB	9.00%	DMW	-6.18%
NIKL	8.51%	SSI	-5.42%
SSP	7.80%	AC	-4.69%
AB	7.69%	CHP	-4.08%
E EI	6.99%	TUGS	-3.80%
PLC	6.78%	COSCO	-3.75%
SCC	6.70%	SM	-3.59%
STR	6.64%	PGOLD	-3.41%
VLL	6.33%	LPZ	-3.41%
ACEN	5.54%	CLI	-3.14%
TECH	4.61%	WLCON	-2.79%
IMI	4.29%	HOME	-2.61%
DMC	3.94%	DD	-1.55%
ABS	3.82%	DDPR	-1.54%
ROCK	3.68%	PRF3A	-1.52%
FLI	3.51%	MAXS	-0.91%
MER	2.84%	SGP	-0.76%



Market Outlook

What You Need to Know

- ➔ The PSEi had a negative week-on-week performance in the final stretch of 2023. Investors opted to take profits from the big jump since October 31. The benchmark index ended with a gain of almost 8% in that 2-month stretch. Market optimism for the following year received a boost after the US Federal Reserve (Fed) definitively plotted possible interest rate cuts starting next year which amounts to 75-basis points (bps), and further reductions until 2026.
- ➔ The number of coronavirus cases in the Philippines increased to 4,135,345 as of December 29 from 4,132,000 in December 22. Active cases slightly increased by 3.38% to 5,757 from 5,569. There were 18 new deaths from COVID-19 recorded last week, and the total figure rose to 66,813. Number of recoveries increased to 4,062,775 from 4,059,836.
- ➔ The beginning of 2024 brings a focus on key economic indicators, with the release of the Federal Open Market Committee (FOMC) meeting minutes taking center stage, providing insights into the future monetary policy direction of the US Federal Reserve (Fed). Additionally, investors will also key in on the US jobs report, JOLTs job openings, and the ISM manufacturing and Services PMI surveys. Forecasts anticipate a non-farm payroll increase of 158,000 for December, a rise in the unemployment rate to 3.8%, and a slowdown in wage growth to 3.9%. Manufacturing activity is expected to remain in contraction, while services maintain solid growth. In Europe, attention will be on key inflation reports for the eurozone which expected to rebound to 3%. In the Asia-Pacific, Chinese PMI results offer insights into the impact of 4Q2023 stimulus measures initiated by the Chinese government. Japan's consumer confidence barometers will provide hints on the Bank of Japan's (BOJ) policy trajectory for 2024.
- ➔ This week will be interesting for the local bourse as to whether it will be able to sustain its upward momentum. While monetary policy and inflation appear to be slowly moving back to within targets, the ongoing conflicts in the Israel-Hamas and Russia-Ukraine front still warrant caution from investors. Escalations over the recent holiday season have caused further concerns about the possible effects on the global economy and the geopolitical situations in the area. Investors will be monitoring key reports from the US, along with the local inflation data which is expected by the Bangko Sentral ng Pilipinas (BSP) to fall within the 3.6%-4.4% range in December after a 20-month low of 4.1% back in November. The PSEi had its best month in January 2023 and went downhill from there before finally posting some recovery in the latter part of the year. With monetary policies set to ease, the business climate are expected to improve for the Philippine companies which have displayed resilience in the past year. The PSEi continues to trade at bargain levels compared to historical averages so the upside potential remains highly attractive, especially when compared to developed markets which had a strong 2023 despite stubbornly high valuations already.

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