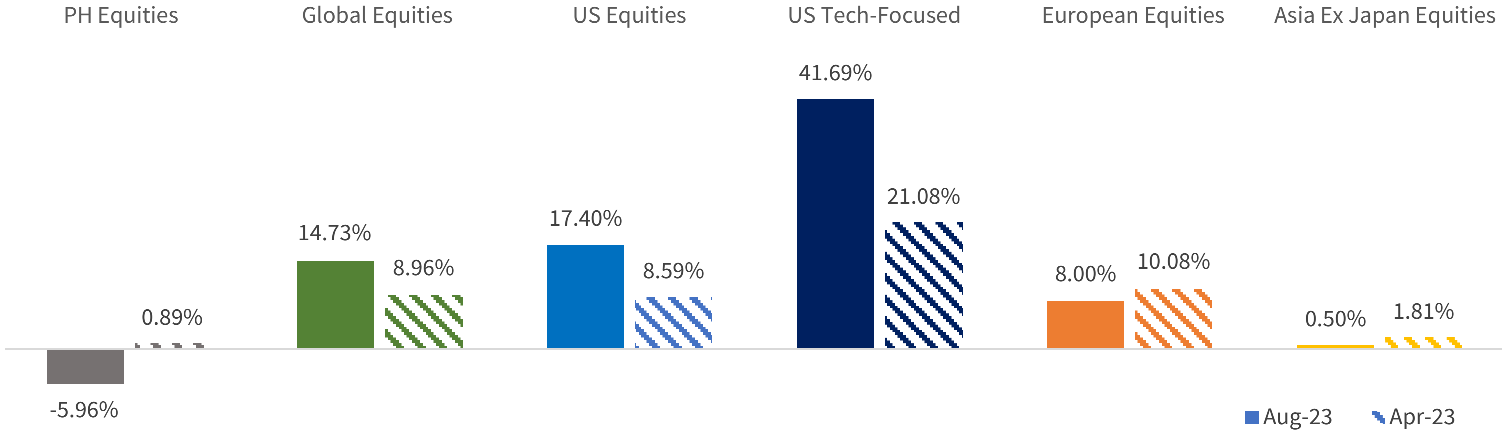
Trendspotting

September 2023

Coming from April, most global indices continued to post positive returns led by the US market, which overcame the banking crisis early this year and was further supported by expectations of a more benign Fed. The initial sunny outlook on emerging markets were challenged with China's struggling consumer demand. Overall, medium to long-term prospects on the market remains positive, but we expect a bumpy ride in the short-term as inflation concerns and possible tighter monetary policy reemerge.

Global Index Performance *(YTD 8/31/23 vs YTD 4/30/23)*



Highlights

Economic Activity

GDP Growth

GDP growth figures for the second quarter came with a mixed reaction in terms of investor sentiment. While positive year on-year, there is a discrepancy in the actual growth figures versus initial expectations for developed and emerging markets.

Q2 2023 GDP Growth (year-on-year):

1. United States .... **2.1%** *(Q1: 2.0%)*
2. Eurozone: .... **0.6%** *(Q1: 1.1%)*
3. China .... **6.3%** *(Q1: 4.5%)*
4. Philippines .... **4.3%** *(Q1: 6.4%)*

For developed markets, the macroeconomic data provided positive news. The US growth, while just slightly under expectation, served as confirmation that inflation pressures moderated last quarter, and also proved optimism that the economy is capable of growing despite the 525 basis points (bps) worth of interest rate hikes since the second quarter of 2022. While appearing small, the Eurozone growth of 0.6% is a good sign for an economy coming from a decline in 2022. On a quarter-on-quarter basis, it was actually the fastest increase in a year, and beat expectations. This continues to strengthen hopes of a soft landing for the Eurozone economy.

On the other hand, emerging market growth largely performed under expectations in the second quarter. In China, while growth was better than the first quarter, it was severely under the forecasted figures and also may be affected by low base effects. For the Philippines, GDP growth was much lower than the market expectation of 6%, and was the slowest pace of expansion since 2011. This provided negative sentiment for the month of August due to a challenging global landscape, taking back the local index's gains for the year.

INFLATION

Inflation was slightly higher than expected but still in line with recent months' levels. In the US, this may have coincided with inflation brought by the summer season. Meanwhile, China has seen an improvement in their inflation profile as pressures eased. Furthermore, emerging markets such as the Philippines saw an increase due to food and transport costs.

August 2023 Inflation:

1. US: .... **3.7%** *(July: 3.2%)*
2. Eurozone: .... **5.3%** *(July: 5.3%)*
3. China: .... **0.1%** *(July: -0.3%)*
4. Philippines: .... **5.3%** *(July: 4.7%)*

MONETARY POLICY

Developed markets have continued their rate hikes but at a slower pace than before as inflation continued to ease. Emerging markets may be favoring economic activity as China cut rates, while the Philippines kept rates steady.

2023 Monetary Policy Decisions:

1. US Fed hiked once in the previous quarter by 25bps to bring the rate to a range of **5.25% to 5.00%**.
2. European Central Bank recently hiked by 25bps in July to **3.75%**, highest level since 2001.
3. People's Bank of China has cut its key lending rate twice this year to **3.45%**.
4. Bangko Sentral ng Pilipinas has kept its rate steady at **6.25%** for 3 straight meetings.

Outlook

Economic growth has proven resilient amidst tight inflationary conditions and high interest rate levels. As upside risks to inflation and interest rates are seen to be limited, economists expect the macroeconomic indicators to pick up and support a recovery in markets globally. With what appears to be sticky inflation in the picture, the road to recovery will be longer. Recent GDP data for the Philippines may negatively impact foreign investor sentiment.

ECONOMIC ACTIVITY

Economic growth forecasts for the **developed economies have edged up from previous estimates** due to more favorable conditions. **Emerging markets retain their forecasts**, however the Philippines' recent economic weakness could dampen foreign demand and market performance. On the bright side, local demand is expected to remain robust, supported by improvements in labor market conditions.

2023 Full-Year GDP Growth Forecast [IMF]:

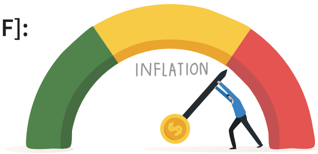
1. United States .... **1.8%** *(previous: 1.6%)*
2. Eurozone .... **0.9%** *(previous: 0.8%)*
3. Emerging Asia .... **5.3%** *(previous: 5.3%)*
4. Philippines .... **6.0%** *(previous: 6.0%)* [by ADB]

INFLATION & MONETARY POLICY

Although the Fed kept policy rate steady in September, markets are pricing in a possible rate hike in November as inflation concerns reemerge. A "higher for longer" Fed policy scenario is at play. The European Central Bank (ECB) may also keep rates elevated in their member states. The Bangko Sentral ng Pilipinas (BSP) may be hostage to the Fed policy movement as it carefully balances domestic inflation concerns, GDP growth, and PhP-USD exchange rate. These are the 2023 Full-Year Inflation Forecasts:

2023 Full-Year Inflation Forecast [IMF]:

1. United States: **4.5%**
2. Eurozone: **5.3%**
3. Emerging Asia: **3.4%**
4. Philippines: .... **6.2%** [by ADB]



Our recommendations

Remain Invested. While there are risks to inflation and interest rates, any decline in the equity market should be taken as a buying opportunity.

Recommended asset allocation:

- A Global Balanced portfolio strategy is expected to benefit from the decline of interest rates and rally of global equities.
- Cautious risk profile: 65% Fixed income, 35% equities
- Balanced risk profile: 25% Fixed income, 75% equities

  (Refer to the table below for the model portfolios as a guide in making portfolio decisions)

PHP Investor		Client Risk Rating				
Asset type	**Market**	**Cautious**	**Conservative**	**Balanced**	**Growth-Oriented**	**Aggressive**
FIXED INCOME	Wealth Bond	65%	45%	25%	5%	—
	Total Fixed Income	**65%**	**45%**	**25%**	**5%**	**0%**
EQUITIES	Wealth Equity	15%	10%	15%	15%	—
	Chinese Tycoon	5%	25%	35%	40%	20%
	Peso GAF	15%	20%	25%	40%	80%
	Total Equities	**35%**	**55%**	**75%**	**95%**	**100%**

USD Investor		Client Risk Rating				
Asset type	**Market**	**Cautious**	**Conservative**	**Balanced**	**Growth-Oriented**	**Aggressive**
FIXED INCOME	GDAF Stable	70%	45%	30%	—	—
	Total Fixed Income	**70%**	**45%**	**30%**	**0%**	**0%**
EQUITIES	Global Advantage	20%	35%	50%	70%	100%
	Total Equities	**20%**	**35%**	**50%**	**70%**	**100%**
BALANCED	Dollar GAIN	10%	20%	20%	30%	—
	Total Balanced	**10%**	**20%**	**20%**	**30%**	**0%**

Continue to refer to your Client Risk Rating according to the Client Suitability Assessment. For Peso and Dollar investors, we recommend the model portfolios that have 5-year investment horizon for each risk rating.

Call your AXA financial partner for a more in depth discussion on how you can apply these recommendations.

Sources of information and data:

Bloomberg data (Global index performance)
https://www.reuters.com/ (Current GDP, Inflation, Monetary Policy Decision data)
https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.mp230727~da80cfcf24.en.html (ECB policy)
https://www.bsp.gov.ph/SitePages/PriceStability/MonetaryPolicyDecision.aspx (BSP Policy)
https://www.imf.org/en/Publications/WEO (2023 GDP Growth & Inflation Forecasts)
https://www.adb.org/news/philippine-economy-post-robust-growth-2023-2024-despite-inflation-pressures-adb (PH GDP/Inflation Forecast)