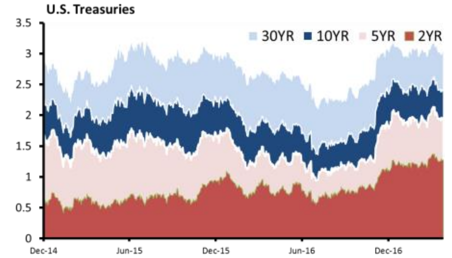
Investment Outlook

Global economy and markets

In his first few months in office, U.S. President Trump has incessantly pushed for his ambitious fiscal agenda. However, despite the Republican majority in both houses of congress, majority of his plans have been pushed back, as evidenced by the recent failure to repeal ObamaCare. Meanwhile, the Federal Reserve (Fed) hiked their benchmark policy rates in March as expected, with some of their statements suggesting that they are more dependent on data than Trump's rhetoric. Over in Europe, elections continue to shape the outlook for the EU as a bloc especially with the recent French and Dutch elections. Adding to the uncertainty is the on-going Brexit negotiations between the UK and the rest of the EU member states. The global economic recovery is, however, broadening, and we see room for consensus estimates to ratchet even higher as reflation gains traction. Inflation expectations have rebounded from lows in mid-2016, and actual inflation is slowly following. The global market outlook for the second quarter remains upbeat but at risk for a downturn should geopolitical tensions turn for the worse.

Developed Market Bonds

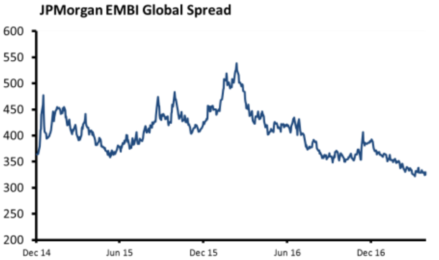
Volatility in the bond market is likely to persist amid a backdrop of several ongoing global themes. The timing and frequency of US rate hikes, the direction of European monetary policy, and execution risk on the Trump administration's fiscal proposals all continue to be the main drivers for price action within the developed fixed income space. Bouts of safe-haven demand particularly around risk events such as the French presidential and German federal elections could drive yields lower in the interim. However, we still expect benchmark interest rates to adjust to the upside on the back of improving global growth and higher inflation.



Source: Bloomberg

Emerging Market Bonds

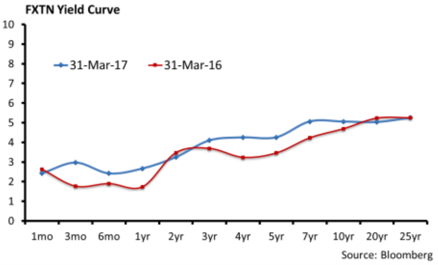
The lack of income opportunities in a number of major markets remain a big challenge for investors. For this reason, Emerging Market (EM) bonds will continue to be an attractive alternative. Credit spreads have remained well supported in the first quarter of the year despite bonds yields generally rising. Given tighter valuations, shorter maturity securities are preferable given their reduced interest rate sensitivity.



Source: Bloomberg

Philippine Bonds

There will be an injection of liquidity as the final tranche of Trusts and UITFs are displaced from the Bangko Sentral ng Pilipinas (BSP's) deposit facilities this June. We expect this to help anchor short-tenor rates as the yield curve steepens in anticipation of higher policy rates. The BSP, having kept policy rates unchanged since its implementation of the Interest Rate Corridor (IRC) in May 2016, is widely expected to raise rates towards the latter half of the year. Additionally, expected supply of longer-dated government bonds, along with speculation on further US rate hikes this quarter, is likely to cause additional pressure on the longer end of the yield curve to move higher.



Source: Bloomberg

Currencies

The Philippine Peso continued to weaken against the US dollar in the 1Q of 2017 with the exchange rate attempting to approach the 50.50 level for the first time since 2006. While there has been a broad retracement of USD strength from the recent highs, the Peso is expected to weaken gradually towards the end of the year. The Peso is likely to continue experiencing some volatility in the short term as investors react to additional information on US fiscal policy and the implications on the interest rate differential.

Source: Bloomberg

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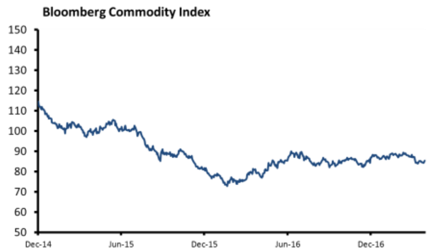
Global economy and markets

Commodities

Steel and aluminum are leading this year's rally as both energy-intensive metals react to China's commitment to cut output. Industrial buyers should continue to expect higher metal prices throughout the year. However, a healthy bull market in base metals should normally be accompanied by a bull market in other commodity markets but it is not completely the case right now.



Source: Bloomberg

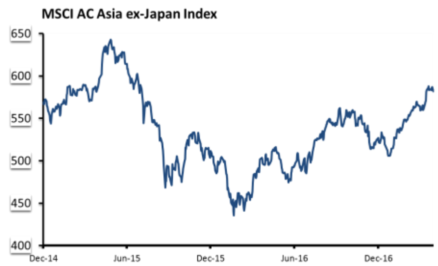
Developed Market Equities

Gains in US equities since the presidential election have been powered mostly by multiple expansion. Preference for European and Japanese equities, where valuations are more reasonable, should emerge if earnings growth expectations were the basis of an allocation decision. We expect small caps, cyclicals and banks to benefit as reflation broadens. As a result, we like the size and value factors. The latter still looks relatively cheap globally, despite solid post-election performance.

Source: Bloomberg

Asia ex-Japan (AxJ) Equities

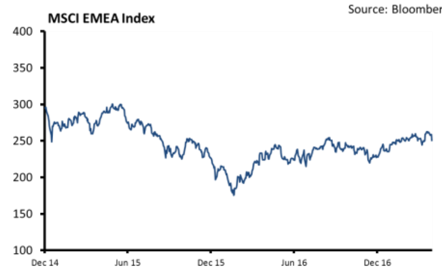
Equity valuations in the region remain cheap-to-fair indicating that the year-to-date rally still has legs. China's economic growth momentum and corporate earnings outlook look strong in the near term. Financial sector reform and rising current account surpluses like that seen in Korea and Taiwan are also encouraging. We like India, China and selected Southeast Asian markets. Credit growth however remains at dangerous levels and thus require caution. Overall, we remain strong on our tactical view of this region and expect it to benefit from the global reflation theme.



Source: Bloomberg

Emerging Market Equities

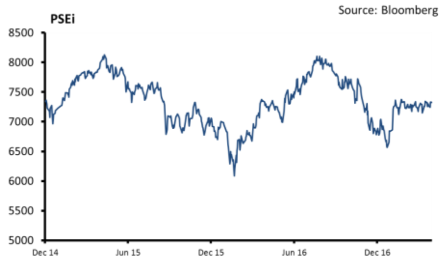
An encouraging sign is a bottoming out of the return on equity in EM markets relative to that of the developed world. Investors however have been slow to shift funds into EM equities. Reasons to strategically invest include global reflation accelerating and broadening, solid consumer demand across the EM world and cost discipline boosting earnings in the resource sector. Recent recessions in Brazil and Russia as well as worries about trade protectionism have kept many investors at bay. Potential for an unexpectedly strong U.S. dollar also looms as a risk. Yet if the worldwide expansion powers ahead and trade keeps recovering as PMIs suggest, we expect EM equities to be among the biggest beneficiaries.



Source: Bloomberg

Philippine Equities

The long-drawn consolidation of the Philippine Stock Exchange index (PSEi) during the first quarter of the year is expected to continue until into 2Q albeit in a different range and possibly with higher volatility. The PSEi's steeper P/E multiple versus regional peers, increasing worldwide geopolitical tensions, and a weaker local currency are keeping foreign investors at the door. Local market participants also eagerly await developments on the passing of the comprehensive tax reform program by the Duterte administration which continues to linger in the lower house of Congress. Despite these concerns, the Philippines' planned infrastructure program and solid economic fundaments are expected to fuel the country's sustainable growth forward.



Source: Bloomberg

Index/Currency	Price as of Mar. 31	Percent Change		
		QoQ	YTD	YoY
MSCI World Index	1,853.7	5.9%	5.9%	12.5%
MSCI AC Asia ex Japan Index	582.00	13.2%	13.2%	14.7%
MSCI EMEA Index	249.85	2.1%	2.1%	6.0%
PSEi	7,311.7	6.9%	6.9%	0.7%
USD / PHP	50.20	1.2%	1.2%	9.2%
USD / JPY	111.39	-4.8%	-4.8%	-1.0%
EUR / USD	1.0652	1.3%	1.3%	-6.4%

Source: Bloomberg

Security	Yield as of Mar. 31	Change in Yield (bps)		
		QoQ	YTD	YoY
US Treasuries 2YR	1.25	7	7	53
US Treasuries 5YR	1.92	-1	-1	72
US Treasuries 10YR	2.39	-6	-6	62
US Treasuries 30YR	3.01	-6	-6	40
PHIL. FXTN 2YR	3.25	-62	-62	-22
PHIL. FXTN 5YR	4.26	-48	-48	80
PHIL. FXTN 10YR	5.06	43	43	37
PHIL. FXTN 20YR	5.03	-35	-35	-20

Source: Bloomberg

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