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Santa arrives early

Last year, Santa Claus arrived late as the PSEi fell 3.2% in December. This year, however, Santa arrived early and was quite generous to the stock market. The PSEi is up 4.5% month-to-date on the back of a global cross-asset rally that started last Halloween. Led by the US, this rally was fueled by a peak in inflation which ushered the peak in interest rates.

Longest win streak since 2017

We explained in our recent articles that a peak in interest rates is the most important catalyst for financial markets. Following the dovish policy speech of Federal Reserve (Fed) Chair Jerome Powell last December 14, the Dow soared to a fresh record high and the S&P 500 notched a 23-month high. Despite the big drop last Wednesday, the Dow, S&P 500, and Nasdaq have rebounded by 15.3%, 15.9%, and 19.5% from their October lows. Year-to-date, the Dow, S&P 500, Nasdaq are up 12.8%, 23.8%, and 43.2%, respectively. This was in large part driven by the dovish calls of Wall Street's investment houses. Wall Street economists and strategists have priced-in 6-7 rate cuts next year compared to the three rate cuts indicated in the Fed's dot plot. With the recent rally, the S&P 500 has risen eight straight weeks, its longest weekly winning streak since 2017. However, equities are not the only assets that are moving higher. Bonds, global currencies, and commodities have all rebounded strongly from their recent lows which mostly occurred last October. Investors call this the everything rally.

Push back

In the past week, two Fed officials pushed back on expectations of imminent rate cuts while providing more clarity on the Fed's policy stance. New York Federal Reserve President John Williams said that "we aren't really talking about rate cuts right now; it's just premature to be thinking about that." Williams clarified that the Fed is "very focused on the question in front of us, which as Chair Powell said… is, 'Have we gotten monetary policy to sufficiently restrictive stance in order to ensure that inflation comes back down to 2%?' That's the question in front of us." Meanwhile, Federal Reserve Bank of Atlanta President Raphael Bostic said that easing may not be an imminent thing as policymakers need several months of data to feel confident that inflation will continue to fall.

Higher for longer

The recent comments by Fed officials mirror the hawkish stance of the European Central Bank (ECB) and Bank of England (BOE) in their latest policy statements. The ECB stated that "future decisions will ensure that its policy rates will be set at sufficiently restrictive levels for as long as necessary." ECB President Christine Lagarde said, "We did not discuss rate cuts at all. No discussion, no debate." Minutes of the BOE's policy meeting showed that committee members believe that "monetary policy is likely to need to be restrictive for an extended period of time."

Last week, Bangko Sentral ng Pilipinas (BSP) Governor Eli Remolona reiterated the BSP's hawkish policy stance. He said, "We're unlikely to cut rates in the next few months. We're in a higher for longer (scenario)." Remolona further explained, "If most of the numbers point in the right direction, including expectations, if they really settle into this comfortable range of 3% for inflation, then we would consider cutting rates."

Halloween to Valentines

In our book "Opportunity of a Lifetime", we explained that the period between October 31 up to February 14 of the next year or Halloween to Valentines is the strongest season for the stock market. Based on historical data, Halloween to Valentines has a batting rate of77% and an average return of 11%. This phenomenon is driven by the Santa Claus rally in December and the January effect that is based on optimism that comes with the New Year (see Chapter 10, page 198 of the book).

True to form, the PSEi is now up 12.3% from its low of 5,920 last October 31. However, the returns of the PSEi and EEM (8.2%) still trail the returns of the Dow, S&P 500, and other US indices. The spectacular performance of US stocks was led by the Magnificent 7 (the biggest mega-tech companies in the US) in light of the recent developments in AI. The recent turnaround and subsequent rally of other sectors came after Powell's policy speech which signaled that interest rates may have already peaked. As we explained in previous articles, a broadening of market strength to other sectors and countries will lift emerging markets including the PSEi.

We wish our readers and investors a Merry Christmas!