

Economic Watch



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THE LOCAL READ



Source: Gerard, A. (2020). City skyline under blue sky during daytime. In Unsplash. <https://unsplash.com/photos/city-skyline-under-blue-sky-during-daytime-vL2h7xYllk>

Q4-2025 GDP Growth Disappoints, Misses Full Year Target

Despite the expected holiday boost, Q4 2025 GDP growth slowed to +3.0% YoY as natural disasters and a corruption scandal hurt confidence and froze government spending. Full-year growth fell to +4.4%, missing the government's 5.5-6.5% target. Analysts were caught off guard, as both Q4 and FY-2025 results undershot expectations. The freeze in public spending, especially a -41.9% YoY drop in public construction, dragged gross capital expenditures (economy-wide investments) down -10.9% YoY.

At the same time, household consumption growth slowed to +3.8% YoY (Q3: +4.1%) and government consumption growth down to +3.7% YoY (Q3: 5.8%). Surprisingly, the trade deficit slimmed by -19.9% YoY (which helped the GDP turnout) on better export performance and lower import appetite.

Outlook: Markets will likely digest 2025's lower growth performance, especially as other countries in the region posted robust growth readings. At the very least, the low GDP readings have almost guaranteed a BSP rate cut in its February meeting, which can improve the mood. Next focus should include Manufacturing PMI, inflation, and employment releases, with the first two indicators positioned to lift overall sentiment if they can support a recovery narrative over last year's dismal reading.

Source: Chan, K. (2026, January 29). Philippine growth slumps to 4.4% in 2025, slowest in 5 years. BusinessWorld Online. <https://www.bworldonline.com/top-stories/2026/01/30/727438/philippine-growth-slumps-to-4-4-in-2025-slowest-in-5-years/>



GLOBAL LENS



Source: Woroniecki, J. (2021, October). Chicago Federal Reserve Bank Building. Unsplash.com; Unsplash. <https://unsplash.com/photos/a-large-building-with-columns-and-a-flag-on-the-corner-Skyf8jB7X4>

Fed Holds, Oil Spikes



The U.S. Federal Reserve kept rates steady at 3.5-3.75% in January, following three previous cuts. With Kevin Warsh set to replace Powell as Fed Chair in March, markets expect two more cuts in 2026. Rate cuts usually support jobs and growth but can raise inflation and typically lead to a stronger peso-dollar rate.



Meanwhile, global crude oil prices mounted to a near five-month high as U.S.-Iran tensions flared over the latter's crackdown on protesters. Some U.S. officials claimed that President Trump may initiate interventions such as targeted strikes to facilitate changes in OPEC's third largest oil producer.



Outlook: With the Fed likely waiting for the new Chair before cutting rates and the BSP expected to cut in February, the peso-dollar rate may weaken. Recent, though likely transitory, spikes in oil prices could modestly affect inflation (though we still expect below 2.0% reading), while shifting geopolitics may prompt profit taking in markets.

Source: Cox, J. (2026, January 28). Fed holds key interest rate steady as economic view improves. CNBC. <https://www.cnbc.com/2026/01/28/fed-rate-decision-january-2026.html?searchterm=fed%20hold>
Harvey, R. (2026, January 29). Brent crude tops \$70 per barrel on Iran attack concerns. Reuters. <https://www.reuters.com/business/energy/oil-prices-rise-third-day-increasing-concerns-iran-attack-2026-01-29/>



FOREX FOCUS

Peso Fluctuates Amid Growth Concerns and Policy Expectations

The work week ending January 30, 2026 proved a volatile one for the peso-dollar rate. While it opened stronger on January 26 to Php 58.902, likely with some BSP intervention from the previous Friday's close of Php 59.063, the peso strengthened to Php 58.71 by Wednesday as the U.S. dollar tumbled with the poorest performance in six months. However, the Thursday official release which showed continued deceleration of Philippine GDP growth to 3.0% in Q4-2025, saw the pair spike to Php 59.03 by day's close. While the U.S. dollar mildly recovered on Friday, the peso strengthened to P58.88 to end the week and the month.



Source: Prouzet, E. (2019, October 24). Assorted banknotes. Unsplash.com; Unsplash. <https://unsplash.com/photos/assorted-banknotes-TZB-1vfmhY>



Source: Trading Economics. (2025). US Dollar Philippine Peso. Tradingeconomics.com. <https://tradingeconomics.com/usa/government-bond-yield>

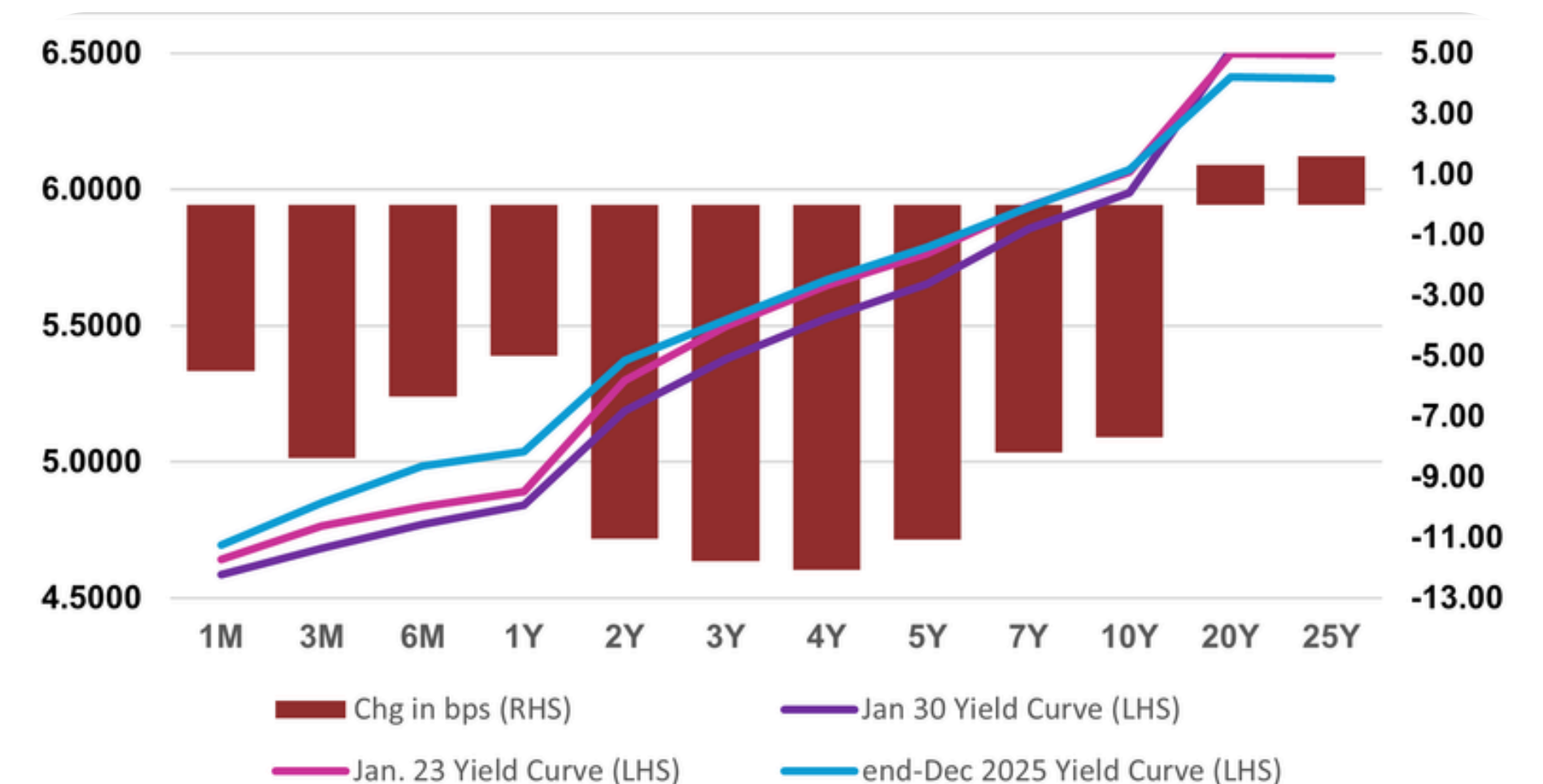
Outlook: With the very short-term indicators still midway between a buy and a sell, we see a fundamental weakening as BSP's February 17 meeting comes closer, since the market widely expects a policy rate cut while the Fed held rates. However, in the meantime, we may see again a slight appreciation bias as precious metal prices have dropped sharply, enticing market players to drive the USDPHP rate lower early in February and reverse course towards the middle of the month. We should closely monitor BSP interventions especially if the peso weakness becomes too pronounced.



THE BOND BLUEPRINT

Yields Slide on Disappointing Q4 GDP Print

Yields for short-term government securities declined further as demand stayed strong and total auction offerings rose compared to December. The secondary market saw a surge in trading volumes, particularly in the wake of the disappointing 3.0% Q4 GDP print, with most activity and yield declines concentrated in the 3-5 year maturity space.



Source: Bloomberg, Authors' Calculations

GS Auctions

Yields declined for short-term government securities in the January 26-30 auctions, with demand remaining strong (TOR at 3.413x for short tenors). 182-day T-bills fell by 6.6 bps to 4.751%, 364-day by 6.1 bps to 4.827%, and 91-day eased to 4.666%. The 2.5-year (7-65) bond dropped 14.3 bps to 5.324%, while the 18.4-year (20-27) bond rose 14.6 bps to 6.572%.

GS Secondary Trading

Trading volumes surged by 37.7% to Php 493.5-B last week, as slower than expected Q4 GDP of 3.0% YoY cemented market expectations of a BSP rate cut in February. Still, trading centered on the 3-5 year space which accounted for 50.5% of total volume, while the 1-3 year bucket made up another 19.0%. Yields descended most in the earlier space, where the largest declines in benchmark yields occurred in 4-year bonds at -12.1 bps to 5.6489%, -11.8 bps to 5.4974% for 3-years and -11.2 bps for 5-year papers to 5.7656%.



Source: Trading Economics. (2026). United States Government Bond 10Y. Tradingeconomics.com. <https://tradingeconomics.com/united-states/government-bond-yield>

Outlook: The disappointing Q4 GDP print further supports a BSP policy rate cut, ideally by 50 bps, in its February 17 meeting. With a relatively stable peso-dollar rate, the bond market began pricing at least a 25 bps slash in the last two trading days of the week. 10-year benchmark yields finally broke through 6.00% barrier by ending at 5.9868%. With some hesitancy at the 10-year space due to global uncertainties, much of the gains should remain in the 5-year or shorter realm.



THE EQUITY PLAY

Top Five Index Winners & Losers

| Stock | Close as of Jan. 30 | W/W Change |
|-------|---------------------|------------|
| ICT | 27.8 | 6.2% |
| BPI | 659.0 | 6.0% |
| JFC | 31.1 | 4.5% |
| LTG | 623.0 | 3.4% |
| JGS | 10.8 | 3.3% |
| ACEN | 116.0 | -10.2% |
| PLUS | 22.1 | -8.8% |
| PGOLD | 14.8 | -5.9% |
| SMPH | 705.0 | -4.2% |
| SMC | 203.0 | -3.5% |

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved Jan 30, 2026 from "Workspace Add-in for Excel"

PSEi Sideways on 2025 GDP Print, Rebound

Busy week for the local stock market as investors awaited key decisions and data. The PSEi hardly changed (-0.07% w/w), closing at 6,328.97 as the U.S. Fed held rates, Q4-2025 GDP disappointed, and a technical rebound played out. The market traded sideways until January 29th, where the low GDP reading spooked investors, lowering the PSEi by 2.0% in one day. A recovery played out the next day, as locals bargain hunted and looked forward to a BSP rate cut, leading to the sideways weekly finish.

The past week saw Php 51.3-B worth of stocks change hands, higher by +59.9% w/w. Foreign participation drove the market, as net foreign buying bloated by +748.0% w/w to Php 7.5-B, with foreigners looking for more exposure after the PSEi reshuffle. Sectorally, the Mining & Oil continued its climb (+4.0% w/w), followed by a rebound in Financials (+1.8% w/w). In contrast, Property counters declined the most (-4.1% w/w).



Source: Investa. (2026). PSE:PSEI - Philippine Stock Exchange Index (PH) | Price and Chart | Investagrams. Investagrams. <https://www.investagrams.com/Stock/PSE:PSEI>

Outlook: The local bourse may continue trading sideways with a slight upside tilt. The effective inclusion of RL Commercial REIT (RCR), replacing Alliance Global Inc. (AGI) in the main index this coming week could spur activity early on, but the inflation and employment releases late in the week will shape market sentiment more. In our view, investors will cheer benign inflation but will somewhat dislike the December unemployment reading. Fundamentally, the PSEi has attractive valuations compared to regional peers and the past decade.

OUR OUTLOOK

- 1 Market will be tentative as it waits for economic data.
- 2 Expect bond yields to trend lower, especially on the bellies.
- 3 Equities will be range-bound between 6,250 to 6,500.
- 4 Expect a risk-off rotation and profit-taking and the market will focus on policy-rate sensitive stocks

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Tell us what you think! What was your favorite part, and what would you like to see next week?