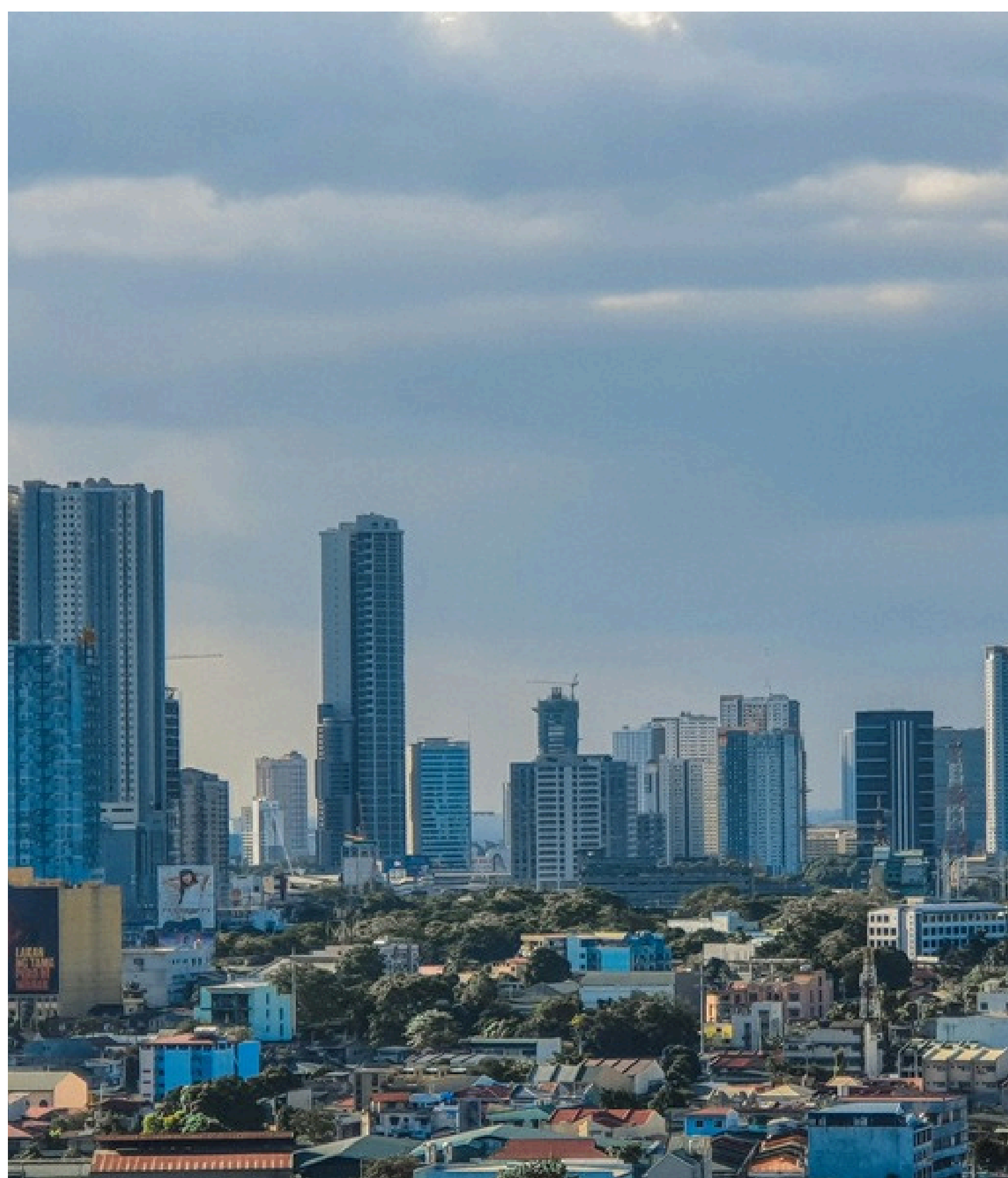




THE LOCAL READ



Source: Caraan, R. M. (2020, April 4). City skyline under white clouds during daytime. Unsplash.com; Unsplash. <https://unsplash.com/photos/city-skyline-under-white-clouds-during-daytime-OAWvZyvik0Q>



GLOBAL LENS

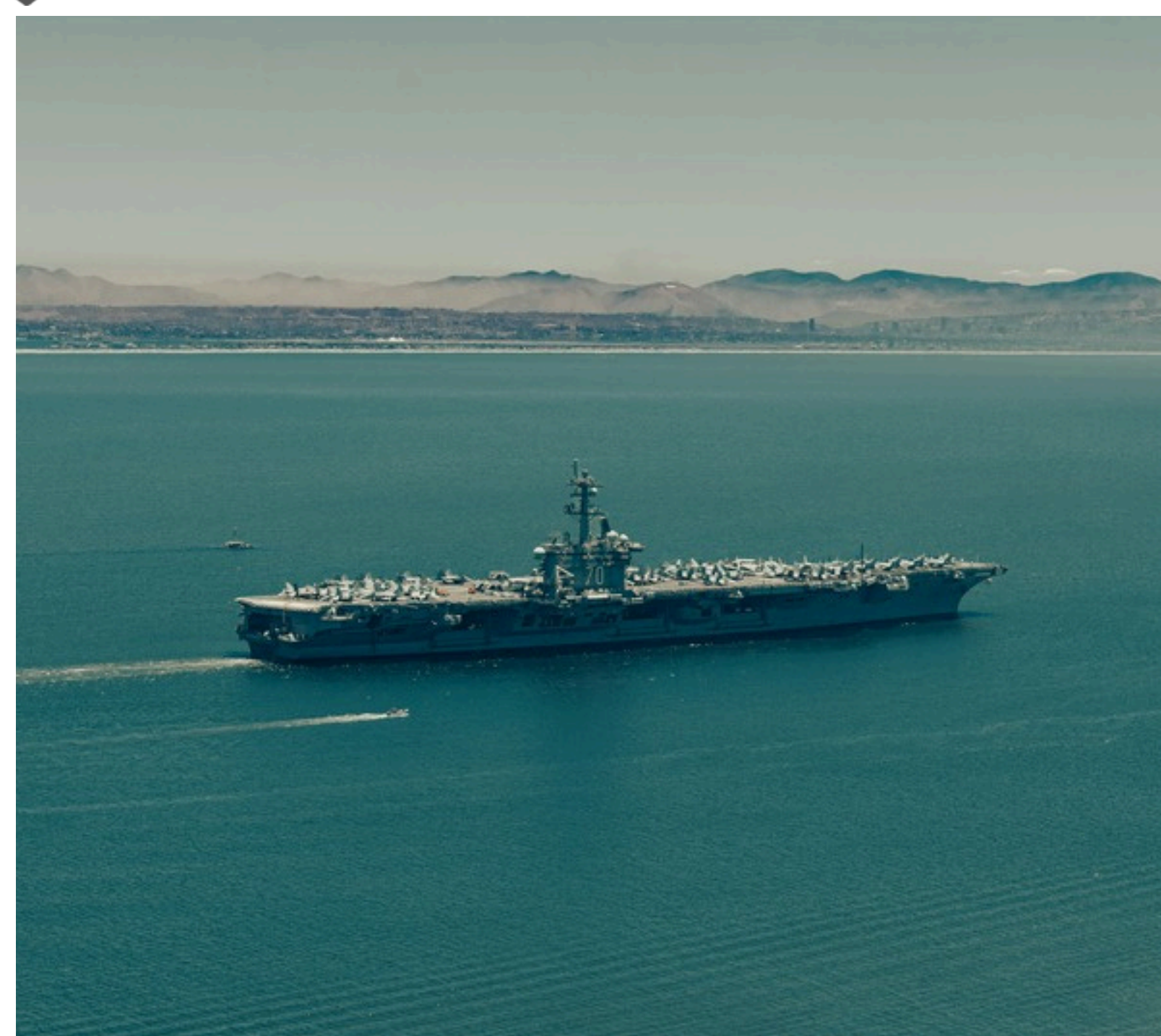


Image Source: Rudolph, William. "A Large Ship in the Water." Unsplash.com, Unsplash, 21 Aug. 2022, unsplash.com/photos/a-large-ship-in-the-water-t1_Yx0otc00.

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Q1-2026 GDP Growth Skids to 2.8%, April Inflation Soars to Three-Year High

Both GDP and inflation surprised to the upside versus analyst estimates. GDP growth slowed to +2.8% YoY (vs. 3.4% expected), the weakest since the pandemic. The biggest drag came from investments, down -3.3% YoY, as softer government infrastructure spending linked to the flood control scandal weighed on growth. General government construction fell -31.5% YoY for a third straight quarter, while the Middle East war also slowed consumer spending growth to +3.0% YoY, the weakest post-pandemic pace on record. This latest print highlights the "double headwinds" the Philippine economy faces today: the fallout of the graft scandal and the uncertainties of the Middle East war.

Meanwhile, inflation blew past expectations at +7.2% YoY (analyst poll: 5.5%, BSP estimate: 5.6-6.4%) as the Middle East war pushed broad-based price pressures. The main drivers were faster prints for Food and Non-Alcoholic Beverages (+6.0% YoY, prev. +2.9%), Housing, Water, Electricity, Gas, & Other Fuels (+8.2% YoY, prev. +4.7%) and Transport (+21.4% YoY, prev. +9.9%). More importantly, faster inflation readings also set in for tertiary, service-related industries such as rentals, healthcare, restaurants, transportation, and recreational activities, which signals second-round inflation effects (when wage hikes and inflation expectations spiral away from normal) creeping in.

Outlook: Despite these latest readings, we do not think the economy is in stagflation mode. Stagflation involves prolonged negative GDP growth and double-digit inflation. Growth remains positive based on a likely pick up in the second half of the year when public infra spending returns. Currently, the economy is more akin to being stuck in second gear— still chugging along, but painfully slow. However, the BSP will likely hike rates in response to hotter-than-expected inflation, which could weigh on growth down the line. The latest inflation print has also raised odds of an off-cycle BSP hike. For now, we see subpar growth and above-target inflation persisting for the rest of the year.

Article Sources: Garcia, Justine Xyrah. "Oil Shock Will Lead to Double-Digit Inflation." BusinessMirror, 5 May 2026, businessmirror.com.ph/2026/05/05/oil-shock-will-lead-to-double-digit-inflation/.
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Missile Strikes Continue Under Ceasefire, U.S. Jobs Better than Expected



Oil prices slid last week as President Trump signaled closer progress towards a peace deal with Iran. Oil calmed initially as the U.S. paused naval escorts in the Strait, winding down tensions as both parties continued negotiating. By mid-week, WTI crude plunged by -10.0% on open to roughly \$98/bbl, as Iran confirmed more progress on peace talks. However, oil then edged up towards \$98.7/bbl by Friday as missile strikes returned anew amid the shaky ceasefire.



In the U.S., the much-awaited April employment reading proved stronger than expected, with non-farm payrolls up by +115,000 (Reuters poll: +62,000) to signal a stable U.S. job market. This raised bets of a Fed rate hold in its June meeting. The CME FedWatch tool (market odds of a Fed policy decision) penciled in a 93.4% probability of a Fed rate hold. Rate holds tend to make U.S. instruments, and thus the dollar, more attractive.



Outlook: Oil may trade into another volatile week, as attacks ramp up under ceasefire and Israel-Lebanon conduct skirmishes. All eyes will be on the upcoming Trump-Xi summit on May 14 and 15, with both superpowers expected to discuss the Middle East conflict. Oil will likely move in response to further updates on Pakistan-brokered peace negotiations between the U.S. and Iran.



FOREX FOCUS

Peso Dollar Strengthens on Softer Oil Prices

USDPHP took a sharp -1.4% appreciation to P60.613/\$ from a high of P61.567/\$ in the previous week. The plunge occurred after PH inflation for April released on Thursday saw a huge acceleration to 7.2% YoY from just 4.1% in March. The peso-dollar dropped to 60.60-60.80 that day but settled midway by end of the week, as T-bond yields soared with the inflation announcement, and expectations of an off-cycle BSP policy rate hike emerged.

Less affected by the mild U.S. dollar weakening, the FX rate reacted more to crude oil prices which by the end of the week had ended closer to \$100/barrel (Brent, and to \$95/bbl for WTI) after shooting up to \$114/bbl (Brent) in the previous week with more aborted peace talks. While stronger, the FX rate steadied in the range above as demand showed after the big fall. Thus, average daily trading volume expanded by 12.8% to \$2.0-B from \$1.8-B previously.

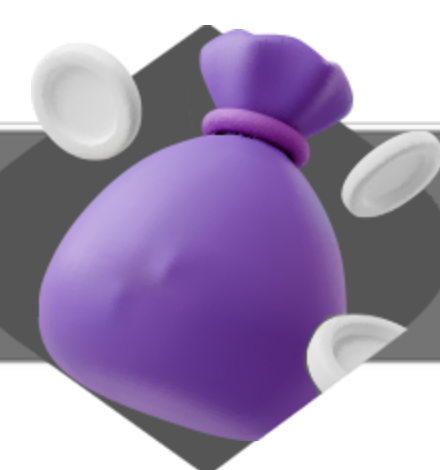


Source: McArthur, J. (2020, June 2). Currencies. Unsplash.com; Unsplash. <https://unsplash.com/photos/10-and-20-us-dollar-bill-ROQzKIADY78>



Source: Trading Economics. (2026). US Dollar Philippine Peso. Tradingeconomics.com. <https://tradingeconomics.com/united-states/government-bond-yield>

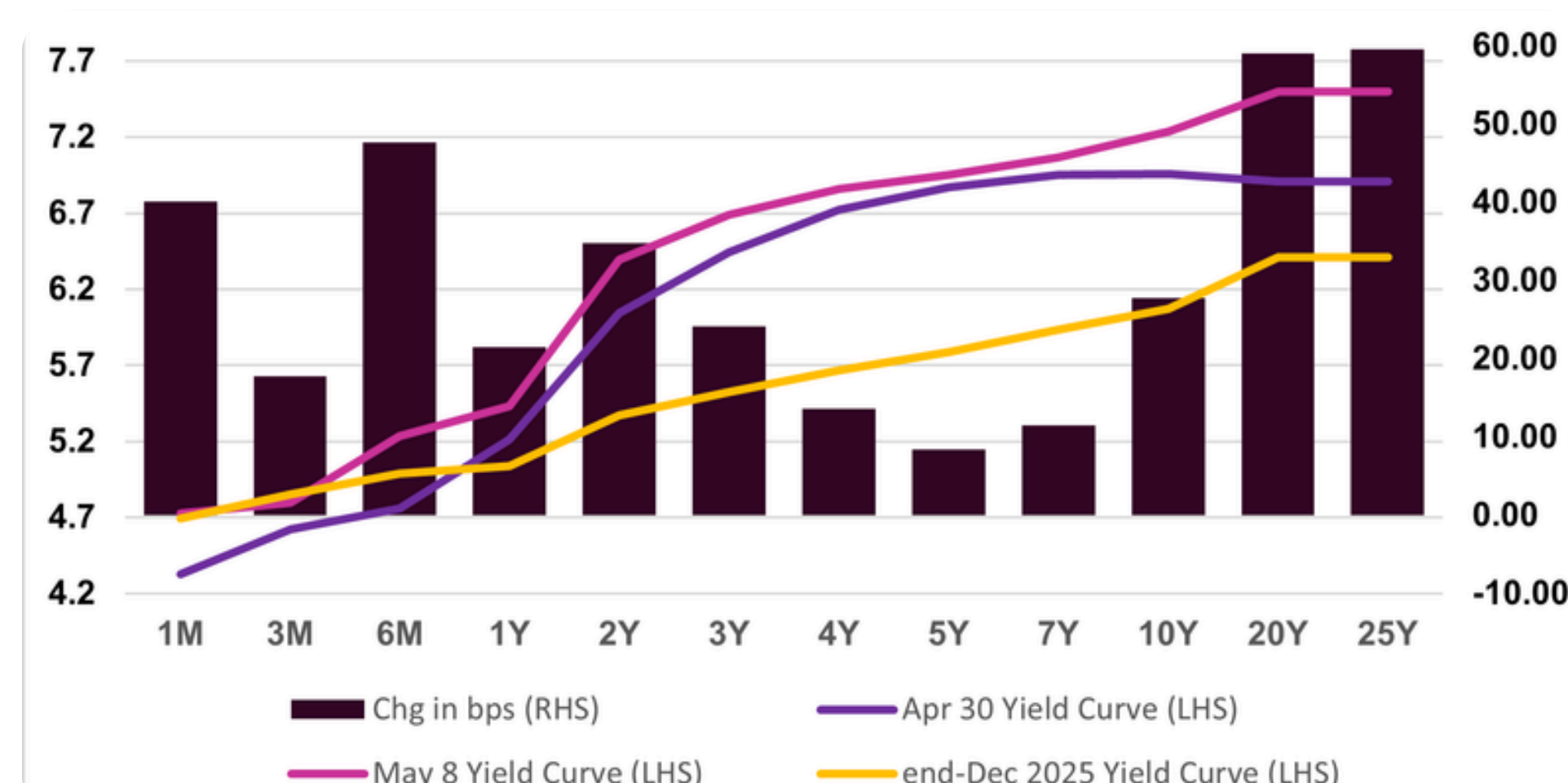
Outlook: The combination of faster PH inflation and volatile but elevated crude oil prices, in the absence of a peace, will likely limit the appreciation of the peso-dollar rate. Solid FX demand—final user and traders-- in the last two days last week would also support that view. We don't see compelling reason for a shift back to peso assets given the riskiness of PH bond and equity investments.



THE BOND BLUEPRINT

Yields Soar on Sizzling April Inflation

Movements were not solely determined by the Middle East conflict nor the U.S. dollar movements, but rather local inflation speeding to 7.2% YoY in April hurled 10-year bond yields above 7.0%, and with other bond yields as well.



Source: Bloomberg, Authors' Calculations

GS Auctions

Investors and dealers stayed risk-averse in GS auctions, with the Tender-Offer ratio slowing to 1.384x from 1.524x the prior week. The Bureau of the Treasury accepted 71% of its P9.0-B 364-day T-bill sale after tenders reached only 87.7% of the offer. It also accepted 87.2% of its P10.0-B 18-year FXTN 20-25 sale, where bids exceeded the offer, as investors demanded a 114.3-bps jump in yield to 7.705%. The 3.4-year T-bond cleared at 6.933%, though no like-for-like comparison was available because the previous comparable offer was rejected. Demand favored T-bills, where yield increases were milder: the 182-day bill rose 22.7 bps to 4.964%, and the 91-day bill climbed 15.3 bps to 4.711%.

GS Secondary Trading

Bonds remained unappealing as secondary market trading kept at a low average daily level of P25.8-B, albeit a +13.3% ascent from ultra-low P22.8-B a week earlier (which had only 4 trading days). Trading in <3Y tenors grabbed 76.0% of total share. Within it, 3M papers saw only a +17.8 bps uptick to 4.7998%, while the 1Y tenor added 21.5 bps from the past week to 5.4295%. The 7Y-10Y space saw a large drop to account for only 8.5% of trading (prev. 17.8%). Yields increased significantly for 20Y-25Y buckets by more than 59 bps, but also for the 6M tenor which hiked by 47.7 bps. The mildest gains in yields occurred in the 5Y (+8.39 bps, 6.95475) and 4Y space (+13.6 bps, 6.8595%).



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

Outlook: The BSP will likely jack up its FY 2026 inflation forecast to at least 6.7% from its latest 6.3% projection in April. Even without a new forecast, the current yields don't seem sustainable. Real short-term yields (i.e., after deducting the FY inflation) would turn negative, while the real 10Y would give only 0.9% return, around half of the real 10-year average of 1.8%. An off-cycle and/or 50 bps BSP policy rate would easily provide the upward push.

THE EQUITY PLAY

Top Five Index Winners & Losers

Stock	Close as of May 4	W/W Change
ACEN	3.3	15.8%
CNPF	31.2	9.5%
ICT	770.0	8.5%
SCC	27.5	5.8%
MONDE	7.1	4.7%
CBC	57.1	-5.0%
SMC	69.4	-3.6%
MBT	65.0	-3.0%
AREIT	38.5	-2.5%
CNVRG	12.5	-1.7%

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

PSEi up by 2.2% Despite Inflation and GDP Releases as Peace Bets Return

The PSEi rebounded by +2.18% to 5,960.64, turning in gains as Middle East peace deal hopes overshadowed local macroeconomic surprises. The index gathered strength ahead of the inflation reading as oil prices deflated, but then slipped a bit with the sizzling three-year high reading. Contrary to expectations, the market rebounded after the downbeat GDP reading, raising rate cut speculation and tracking optimistic foreign funds on U.S.-Iran peace talks. The market tilted downwards thereafter, as investors digested recent indicators and the return of skirmishes in the Middle East. Portfolio rebalancing after the PSEi's free float adjustment also encouraged some last-minute moves.

Total turnover jumped by +23.8% w/w to P35.6-B. For the first time since the start of the war, foreigners emerged weekly net buyers of Philippine equities worth P59.5-M. Sectors were mostly positive, with Mining & Oil up on industry tailwinds and Services higher on heavyweight positioning, with both jointly leading gainers (+5.8% w/w) while Financials (-0.81% w/w) trailed behind.



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

Outlook: Market to track sideways with pronounced short term volatility. We think that the market has yet to fully digest the macro indicator readings, with opportunistic foreign fund flows masking movements last week. Over the weekend, tensions have once again flared along the Strait of Hormuz and U.S. jobs were stronger than anticipated, which could spark risk-averse tendencies. Technical indicators suggest that the market was short-term oversold in the final trading day last week, which could invite local bargain hunters but may not provide a lasting rally.



OUR OUTLOOK

- 1 **Market is now shifting to monetary tightening expectations.**
- 2 **Volatility on equities and bonds will continue.**
- 3 **Equities market will continue to trade with a negative bias.**
- 4 **Expect trade to revolve around the short-end of the curve.**

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