ATRAM

Fourth Quarter 2015

Investment Outlook

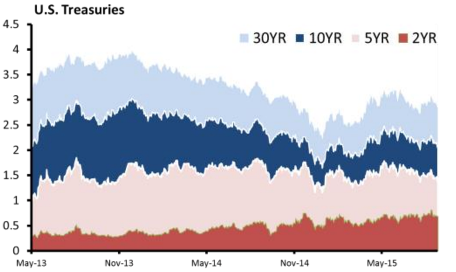
Global economy and markets

Global equities declined in the third quarter, with emerging markets underperforming developed markets, amid worries about the economic slowdown in China and the implications for global growth. The US Federal Reserve's decision to keep policy on hold at its September meeting, effectively delaying the 'lift off' of interest rates was a key moment in the quarter and exacerbated the sense of uncertainty in risk markets. US equities performed in line with the MSCI World Index (S&P500 Index -6.4%) while Eurozone equities registered negative relative returns (MSCI Europe -9.2%) for the quarter despite encouraging data from the region. A sell-off in Chinese A-share equities on deleveraging and unwinding of margin financing, and surprise devaluation of the yuan by the People's Bank of China (PBoC) in early August which hit sentiment, was a bane to Asian stocks (MSCI Asia ex Japan -17.7%). The Philippine equity market was not spared the Emerging Market (EM) route (PSEi -8.9%) as foreigners have now turned net sellers after cumulative net foreign buying hit USD1.2 billion in early April. The third quarter had been broadly positive for global bonds with government bond yields almost universally lower during the period. Total returns for investment grade corporate bonds inched into positive territory (BofAML Global Corporate Bond Index +25bps) although high yield bonds struggled (BofAML Global High Yield Index -5.27%). Even though near-term risks remain elevated, the recent market selloff and widening of credit spreads have created opportunities for buying risk assets. In the 4th quarter of 2015, we expect stocks to outperform bonds, credit to offer positive returns, and developed markets (DM) to lead EM. Looking further ahead, while equities may offer lower risk-adjusted returns than in recent years, more opportunities to outperform the broader market should emerge through stock selection. Longer-dated interest rates will probably rise but only slowly and modestly over a 12-18 month time horizon.

Developed market bonds

A multitude of events transpired to contribute to the strong rally of safe haven bonds in the 3Q which was started off by "Grexit" concerns and its feared consequences on the euro-zone's future. However, the rally was cut short by the finally agreed upon 3rd bailout borne from 6 months of antagonistic negotiations. Nonetheless, after a hitting the lows, yields systematically moved lower due to the continued slide in commodity prices as the combination of weak global demand, and the persistent oversupply concerns heightened investors' caution. Looking ahead, after the September Fed rate lift-off delay, we expect the market to push their expectations further to early 2016 as recent macroeconomic data, specifically the weak Non-Farm Payroll (NFP) figure and benign inflation rates weaken the Fed's justification on raising rates. The US yield curve should flatten as a lift-off in interest rates is initiated where the short end of the yield curve will inevitably rise, the long-end should remain well-anchored. Demand from institutional investors, and, more importantly, loose monetary policy by central banks elsewhere around the world should continue to keep long-end yields low.

U.S. Treasuries

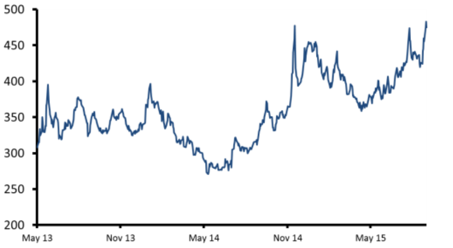


Source: Bloomberg

Emerging market bonds

Emerging markets saw outflows of foreign portfolio capital for the third consecutive month in September. Global investors are estimated to have sold USD 21 billion worth of EM debt in the largest reversal since 4Q08 at the height of the global financial crisis. The rout was primarily due to concerns about Chinese growth, weaker commodity prices, and uncertainty over a US Federal Reserve rate decision. While EM Asia continues to be the bright spot in the region, we expect EM local currency bonds to continue to underperform despite compelling nominal yields due to the continuing USD strength versus EM local currency bonds and a potential risk-off move brought about by the inevitable rate hike. However, we believe that global risk appetite will continue to be headline driven and provide select buying opportunities.

JPMorgan EMBI Global Spread

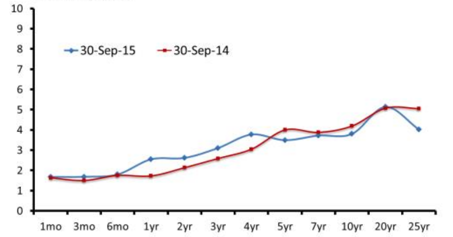


Source: Bloomberg

Philippine bonds

Although the bond swap carried out by the Bureau of Treasury (BTr) towards the end of the 3Q generated strong interest, concerns on the timing of a possible rate hike by the US Federal Reserve saw local bonds sell-off significantly post-swap. However, strong local fundamentals and solid domestic support are likely to keep bond yields anchored somewhat. The BSP is unlikely to change its tune and we expect policy rates to be held steady in 4Q15 as they reiterate that the present policy stance remains appropriate. Some volatility is expected to persist on the back of external developments. Entering Q4, bond yields are just slightly higher than year-end 2014 levels and we expect them to trend lower gradually as we approach the end of the year.

FXTN Yield Curve



Source: Bloomberg

Currencies

The US Dollar-Philippine Peso FX rate touched a year-high of 47.04 and a low of 45.00 in 3Q15. Volatility continues to persist on speculation on the timing of the US Federal Reserve's first rate hike in almost a decade. We expect the peso to approach the 47 level once more as we get closer to the final Federal Open Market Committee (FOMC) meeting for the year in December. The long-term theme of USD strengthening remains intact.

Dollar Index

Source: Bloomberg

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Global economy and markets

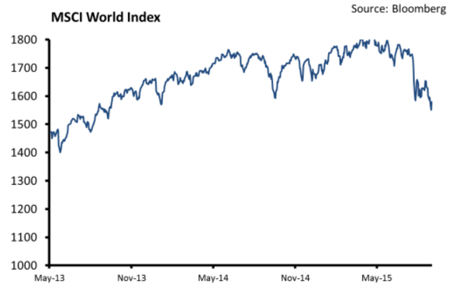
Commodities

Commodities have reached multi-decade lows relative to equities and bonds. For industrial metals, the supply still has to adjust to structurally lower Chinese demand growth. In many instances this needs to be in the form of supply curtailments, which have been slow in coming. Combined with a lack of material improvement in the manufacturing data, particularly in China, these factors may continue to dampen incentives for long positions this quarter. Nevertheless, the push-back of Fed rate-hike expectations should provide some support for commodity prices in the 4Q15. Thus, we see a sideways movement in prices to be the most likely scenario.

Source: Bloomberg

Developed market equities

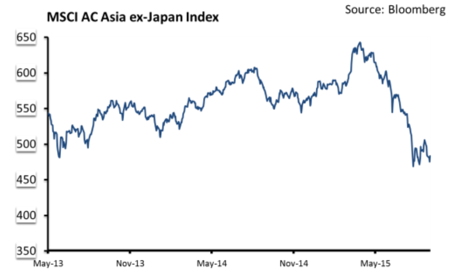
Developed markets experienced a sell-off in the latter part of the Q3, after negative sentiment on China's economic slowdown raised concerns on its effect to global growth. We see the markets to recover from this slump as central banks become supportive of the world economy through additional easing, or in the case of the United States, a delay in the raising of interest rates. We think that the US will have a slower growth in 2015 compared to the last two years, but this does not stop its equity markets from having companies with strong earnings growth. The tech and healthcare sectors are expected to grow fastest and will contribute most to earnings growth in the US, which should push their benchmarks higher. European and Japanese equities are going to benefit from continued quantitative easing by their central banks, and because of this, we think that these two are the best markets in the developed world, given the recent sell-off. For the last quarter of 2015, we are going to see a recovery in asset prices, which should make stocks fairly valued. Lastly, it is important to note that despite slower growth this year, we think that this is not going to be a precursor for a recession, and we think that a market crash or a bear market is not yet in the horizon.



Source: Bloomberg

Asia Ex-Japan equities

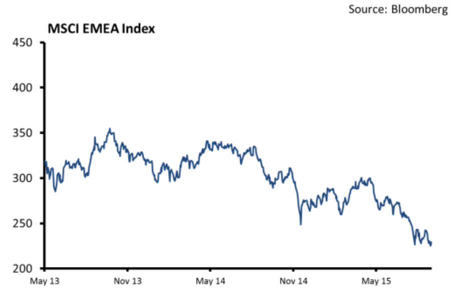
There was an overreaction by investors in the Q3 prompting us to have a very positive outlook in Asian equities this Q4. For the current quarter, we would like to direct the attention to China, which has recently seen a huge sell-off. Stock prices are currently giving investors an implied dividend yield of 6% and price to earnings ratio of 7x for Chinese equities. Fundamental ratios are now considered very cheap compared to historical averages and are currently nearing 2008 recession levels. With the PBOC having a lot of room for more easing, we think that the recovery of China's stock market is just around the corner. We expect Emerging Asia ex-China to have mixed performance, but we think that the stabilization of China's economy is good overall for the region.



Source: Bloomberg

Emerging market (non-Asian) equities

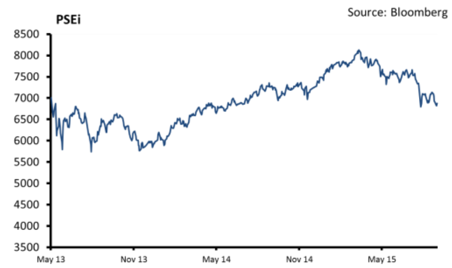
Emerging markets were sold-off by investors last quarter due to an anticipation of an interest rate hike in the US. There was fear and panic that emerging market currency depreciation due to a higher rate in the US will have an adverse impact to emerging markets similar to what happened in Asia back in 1997. It is different this time since most emerging economies have stocked up on their dollar reserves to have ammunition if and when the depreciation of their currencies start affecting the credit of local companies. We think that bears will be caught off guard by the rally which will happen this Q4, which will be triggered once investors realize that there is still growth in the world economy albeit it being slower. The accommodative monetary policy of major central banks is seen to have a positive ripple effect to developing countries.



Source: Bloomberg

Philippine equities

Given analysts' recent earnings downgrades after missing first half estimates, we expect 3Q corporate profits to be in line with market expectations. We expect foreign portfolio flows to remain a key market mover in the 4Q in light of the gyrating global risk sentiment. On the macro front, a resurgence in government spending boosted GDP growth expectations for the full year despite the disappointing first half performance while inflation continues to be stimulative mainly due to the weak energy prices. We anticipate a mild rebound in the PSEi heading into the last quarter after hitting the year's lows as valuations become more compelling as the Philippines remains to be one of the bright spots among emerging markets.



Source: Bloomberg

Index/Currency	Price as of Sept 30	Percent Change		
		QoQ	YTD	YoY
MSCI World Index	1581.9	-8.9%	-7.5%	-6.9%
MSCI AC Asia ex Japan Index	483.23	-17.7%	-14.3%	-14.4%
MSCI EMEA Index	230.02	-17.0%	-15.0%	-24.1%
PSEi	6894.0	-8.9%	-4.7%	-5.3%
USD / PHP	46.73	3.6%	4.5%	3.9%
USD / JPY	119.88	-2.1%	0.1%	9.3%
EUR / USD	1.1177	0.3%	-7.6%	-11.5%

Source: Bloomberg

Security	Yield as of Sept 30	Change in Yield (bps)		
		QoQ	YTD	YoY
US Treasuries 2YR	0.63	-1	-4	6
US Treasuries 5YR	1.36	-29	-30	-40
US Treasuries 10YR	2.04	-32	-13	-45
US Treasuries 30YR	2.85	-27	10	-34
PHIL. FXTN 2YR	2.61	-9	-14	48
PHIL. FXTN 5YR	3.49	-40	17	-51
PHIL. FXTN 10YR	3.80	-56	-6	-40
PHIL. FXTN 20YR	5.14	48	16	6

Source: Bloomberg

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