# 2025 Market Recap and 2026 Market Outlook

### *Sailing the Crimson Tide*

In 2025, the Philippine economy navigated a path of modest growth characterized by "cautious optimism" amid significant domestic and global headwinds. The country's Gross Domestic Product (GDP) experienced a cooling trend, with growth settling at approximately 5.2% to 5.4% for much of the year, down from the 5.6% recorded in 2024. While the Philippines remained one of the faster-growing economies in Southeast Asia, it fell short of the government's initial targets, leading the Development Budget Coordination Committee (DBCC) to revise its 2025 growth goal downward to a range of 5.5%–6.5%. This deceleration was primarily attributed to a sharp slowdown in government spending due to an infrastructure-related corruption probe and the adverse impact of successive severe typhoons on the agricultural and service sectors.

Inflation emerged as a relative success story for the year, consistently trending downward and remaining within or even below the Bangko Sentral ng Pilipinas (BSP) target range of 2.0% to 4.0%. By May 2025, headline inflation hit a multi-year low of 1.3%, driven largely by aggressive government interventions in rice subsidies and the stabilization of global oil prices. Although rice prices began to rebound slightly toward the end of the year, the overall "benign" inflation environment provided the BSP with the necessary room to begin a cycle of interest rate cuts aimed at stimulating domestic consumption and providing relief to Filipino households.

The labor market demonstrated resilience but remained highly vulnerable to climate-related shocks. The unemployment rate saw fluctuations throughout the year; for instance, it rose to 4.4% in November 2025 from a low of 3.2% a year prior. This spike was directly linked to the "triple threat" of severe storms that hit the archipelago during the latter half of the year, displacing nearly 873,000 workers in the agriculture, fishing, and hospitality subsectors. Despite these setbacks, the government intensified its focus on the Philippine Innovation Act and skills development to help the workforce transition into more climate-resilient industries such as Business Process Outsourcing (BPO) and tourism.

The Philippine financial market faced a difficult year, with the benchmark PSEi ending 2025 on a "tough" note, recording a full-year decline of approximately 7.29% to close at 6,052.92. Investor sentiment was dampened by corruption scandals, slower-than-expected GDP growth, and foreign investors paring their exposure due to global uncertainties, including new U.S. trade policies. The central bank initiated a series of interest rate cuts that served as a critical, albeit complex, catalyst for the Philippine stock market. By December, the policy rate was reduced to 4.5% to stimulate a domestic economy grappling with a slowdown in Gross Domestic Product (GDP) growth and the fallout from infrastructure-related corruption probes. Theoretically, lower interest rates are a boon for equities, as they reduce borrowing costs for corporations and make stocks more attractive relative to low-yielding fixed-income assets.

Despite the overall index decline, the rate cuts triggered a significant internal rotation within the market, creating clear winners in yield-sensitive sectors. Real Estate Investment Trusts (REITs) and high-dividend-paying utilities, such as AREIT and Meralco, emerged as havens for investors seeking stable returns as traditional bank deposit rates fell. In contrast, the property sector saw a "mixed" impact; while lower mortgage rates were expected to eventually boost residential demand, heavyweights such as SM Prime and Ayala Land faced selling pressure for much of the year due to broader economic uncertainty. Interestingly, the final "double cut" in December, when both the BSP and the U.S. Federal Reserve lowered rates, provided a late-year boost that helped the PSEi reclaim the psychological 6,000 level, setting a more supportive, liquidity-driven foundation for a projected recovery in 2026.

Meanwhile, the global economy was profoundly reshaped by the "Trump Tariff Shock," which saw the United States shift from a decade of relatively low trade barriers to an average effective tariff rate of over 20%, the highest since the 1930s. This aggressive protectionism, characterized by a universal 10% floor on all imports and country-specific duties reaching as high as 145% for China, acted as a major drag on global growth, causing a projected 0.8 percentage-point reduction in global GDP. The initial rollout in April 2025 triggered severe financial instability, wiping out an estimated $10 trillion in global equity value in a single week as investors repriced the risks of a policy-induced global recession.

Beyond direct trade volume, the 2025 tariffs fueled a global divergence in inflation and monetary policy that complicated the recovery from the post-pandemic era. In the United States, the tariffs were inherently inflationary, pushing prices up by an estimated 2.3% and forcing the Federal Reserve to maintain higher-for-longer interest rates, which in turn strengthened the U.S. dollar to the detriment of emerging markets. Conversely, for export-reliant nations such as Germany, China, and much of Southeast Asia, the trade barriers acted as a deflationary force on production, as a glut of unsold goods led to manufacturing slowdowns and rising unemployment in industrial hubs.

Brent crude oil prices followed a definitive downward trajectory, ending the year with an annual average of approximately $69 per barrel, the lowest level since 2020. The market opened the year with some strength, as Brent reached a high of $79 to $83 per barrel in January 2025, but prices progressively slid throughout the year to a low of $63 per barrel toward the end of the year. This persistent decline was primarily driven by a "massive global supply glut," in which world petroleum production outpaced consumption by an average of more than 2.5 million barrels per day in the second half of the year. While non-OPEC+ nations such as the United States, Brazil, and Guyana ramped up output to record levels, global demand growth remained sluggish due to cooling industrial activity in Europe and the rapid adoption of electric vehicles in China.

Concurrently, the U.S. technology sector continued its dominant streak, with the tech-heavy Nasdaq Composite rallying 20.5% to lead the broader market for a third consecutive year. The primary engine of growth remained the aggressive buildout of artificial intelligence (AI) infrastructure, with roughly 60% of all S&P 500 gains attributed to the technology and communication services sectors. Nvidia remained the star performer, becoming the first public company to surpass a $4.5 trillion market valuation after its data center revenue surged by over 60% year over year.

## *Seizing the Vanguard, Staying Ahead of the Curve*

The funds have delivered relatively better performance over the past year despite the pullbacks brought about by economic uncertainties. With the economy expected to pull off a modest rebound in 2026, this creates room to maneuver for both the fixed-income and equity markets. Recent rate cuts by the BSP are expected to support improved economic performance. The government and multilateral lenders such as the World Bank and the IMF project GDP growth to pick up to approximately 5.3% to 6.0%, which, if realized, would fall within the revised government target of 5.0% to 6.0% for 2026. Growth in 2026 will be largely fueled by a rebound in private consumption and a recovery in public infrastructure spending as the government resolves the administrative and transparency bottlenecks that stalled projects in the previous year. These policy adjustments are expected to filter through to the real economy, boosting credit and business expansion.

On the price and labor front, the Philippines enters 2026 with a stable but slightly higher inflation profile. After hitting multi-year lows in 2025, headline inflation is forecast to settle within the 2.8% to 3.0% range. This uptick is not seen as a threat but rather a "normalization," as negative base effects from 2025 recede and global trade costs stabilize. The labor market is expected to remain robust, with unemployment hovering around 4.0% to 4.5%. However, the quality of jobs remains a focus, as the government pivots toward climate-resilient employment strategies to protect workers from the extreme weather events that disrupted the agricultural and service sectors in 2025. This "benign" inflation and steady employment provide the BSP with a supportive backdrop to maintain an accommodative monetary stance, likely keeping the policy rate at or near its December 2025 level.

The 2026 outlook implies a constructive re-rating for Philippine financial markets, particularly equities. After a bruising 2025, the market is currently trading at exceptionally attractive valuations—approximately nine times forecast 2026 earnings—making it one of the cheapest in Southeast Asia. Analysts expect a rotation back into the Philippines, led by consumer discretionary stocks, REITs, and logistics, as lower interest rates and resilient remittances drive earnings growth. For the bond market, the environment is shifting toward a carry-trade play. With inflation anchored and the BSP approaching the end of its easing cycle, Philippine peso bonds offer attractive yields ranging from 4.8% to 6.2% compared with many developed markets. While the Philippine peso may remain sensitive to the strength of the U.S. dollar, a projected appreciation in the first half of 2026 could provide the missing ingredient to attract foreign inflows back into both fixed-income and equity assets.

On the other hand, the global economic outlook for 2026 is one of sturdy but divergent growth as the world begins to absorb the full impact of the policy shifts and technological breakthroughs of the previous year. Most major financial institutions, including Goldman Sachs and the IMF, project global GDP growth to settle between 2.8% and 3.2%. This resilience is largely attributed to a "front-loaded" recovery in the first half of the year, driven by the easing of financial conditions as central banks continue their rate-cutting cycles. While the U.S. is expected to lead advanced economies with projected growth of 2.2% to 2.6%—bolstered by tax cuts and AI-driven productivity—the Eurozone and China face a more muted path. Europe continues to grapple with structural energy challenges and fiscal consolidation, while China's expansion of roughly 4.5% to 4.8% remains heavily reliant on manufacturing exports to offset a persistently sluggish domestic property market.

### *Positioning for Opportunity*

Against this improving macroeconomic and market backdrop, investors are well-positioned to take advantage of diversified investment solutions tailored to varying risk appetites and financial goals. The equity market is poised to turn upside in 2026 supported by more attractive equity valuations at the beginning of the year. According to the International Monetary Fund, the central bank is expected to continue its policy rate cuts during the first half of the year, providing a supportive backdrop for the equity market. Further support is anticipated from the lagged effects of earlier interest rate reductions, alongside improving consumer spending momentum in the latter part of 2025, which could contribute to stronger GDP growth in the first half of 2026. However, these positive drivers are partially offset by external and domestic headwinds, including the potential impact of US tariff measures and continued political uncertainty, both of which may weigh on investor sentiment and market performance.

We outline three scenarios for the equity market: in our bear case, the index is expected to decline to 5,600, representing a downside of 6.6%; in the base case, the index is projected to rise to 6,500, implying an upside of 8.4%, and in the bull case, stronger macroeconomic and market conditions could lift the index to 7,200, corresponding to a gain of 20.4%. Our strategy is to focus on high-quality companies with strong fundamentals, clear earnings visibility, and resilience to macroeconomic headwinds, while maintaining a nimble stance to navigate external volatility and interest rate-driven market shifts.

Meanwhile, the outlook for the peso bond market in 2026 is broadly constructive, supported by an easing monetary policy environment and a benign inflation backdrop. The BSP has already implemented significant policy rate cuts through 2025, and further accommodation in 2026, potentially an additional 25–50 basis points, would be supportive of higher bond prices and lower yields. Inflation is projected to remain within the BSP's 2–4% target range, providing ample policy space to maintain a supportive stance without stoking price pressures, while moderate GDP growth should underpin overall fixed-income market stability. However, the government's plan to increase peso borrowing in early 2026 to capitalize on lower interest rates could lead to higher bond issuance, which may deepen the domestic bond market but also place some upward pressure on longer-tenor yields if investor demand does not keep pace. The fund's strategy will focus on selectively positioning along the yield curve to capture attractive opportunities, maintaining a high-quality portfolio to mitigate credit risk, and balancing duration exposure to benefit from a supportive rate environment while managing potential volatility from increased issuance.

The outlook for the dollar-denominated bond fund in 2026 is cautiously constructive, supported by improving global monetary conditions. Exposure to Republic of the Philippines (ROP) bonds is expected to benefit from a potentially more accommodative global rate environment, with easing U.S. interest rates likely to stabilize bond prices and support total returns in dollar terms. While market volatility may persist due to geopolitical tensions, shifts in global interest rates, and uncertainties around global growth, the fund aims to provide income generation and capital preservation by focusing on high-quality ROP bonds and maintaining diversification to mitigate downside risks in a potentially uneven market environment.