

ECONOMIC AND MARKET UPDATE

The Philippine Economy at a Glance

<p>GROSS DOMESTIC PRODUCT</p> <p>4.40% Full-year 2025</p>	<p>FOREIGN EXCHANGE</p> <p>March 2026</p> <p>P60.75/\$ (5.35% weaker FTM) (3.33% weaker YTD)</p>	<p>INFLATION RATE</p> <p>4.1% (MARCH 2026) (based on 2018 prices)</p>	<p>UNEMPLOYMENT RATE</p> <p>5.8% (JANUARY 2026)</p>	<p>BSP POLICY RATES</p> <p>4.75% (lending rate) 4.25% (borrowing rate) 3.75% (overnight deposit)</p>	<p>CREDIT RATINGS</p> <p>BBB+ (Standard and Poor's) BBB (Fitch Ratings) Baa2 (Moody's Investor)</p>
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Macroeconomic Updates

BSP continues to hold policy rates. The Bangko Sentral ng Pilipinas (BSP) kept its policy rate at 4.25% in an unexpected off-cycle meeting to address uncertainties brought by the Middle East conflict, alongside rising global oil prices. The central bank said recent inflation surges are mostly due to supply issues, which limits the impact of monetary policy. It raised its 2026 inflation forecast to 5.1% while lowering GDP growth expectations to 4.4%. Governor Eli M. Remolona noted that fiscal measures are much more necessary to better support the local economy, though the BSP remains ready to tighten rates if supply shocks lead to demand-driven inflation.

Unemployment climbs in January. The Philippines started 2026 with a higher unemployment rate of 5.8% in January, the highest in over three years, rising from 4.4% in December as a result of seasonal post-holiday slowdowns in labor demand. The number of unemployed Filipinos increased to 2.96 million, while the labor force fell to 50.89 million and participation eased to 62.3%, reflecting weaker workforce engagement. At the same time, underemployment remained elevated at 13.2%, indicating that many workers are still seeking more hours or better-quality jobs.

Inflation in March rises sharply. Inflation in the Philippines surged to 4.1% in March, up from 2.4% the previous month, reaching its highest level since July 2024 based on PSA data. Higher fuel and transport costs pushed prices up, while core inflation rose to 3.2%, indicating broader price pressures. The sharp increase may prompt the BSP to reassess monetary policy at its April meeting, balancing the need to contain inflation with concerns about a slowing economy.

Government borrowings climb in 2025. The Philippines' gross borrowings rose to ₱2.65 trillion, surpassing both the government's target of ₱2.6 trillion and the previous year's ₱2.57 trillion, as higher domestic issuances offset a decline in external financing. Domestic borrowings increased by 9.7% to ₱2.11 trillion, driven by Treasury bonds, retail Treasury bonds, notes, and bills, while external borrowings declined by 15.3% to ₱543.24 billion, reflecting efforts to reduce reliance on foreign debt. By year-end, total government debt reached a record ₱17.71 trillion, with 68.4% sourced from domestic markets. The debt portfolio remained resilient, supported by strong domestic issuance and careful management of foreign obligations.

Hot money exits in January. The Philippine capital market saw a net outflow of \$1.13 billion in foreign portfolio investments, or "hot money," in January, amid cautious investor sentiment. Government securities accounted for most of the outflows at \$966 million, while equities recorded a smaller \$168 million net outflow, even as the stock market rose 4.6%, supported by low inflation, expectations of BSP easing, and a stronger peso.

FDI net inflows ease in 2025. Foreign direct investment (FDI) net inflows into the Philippines eased to a five-year low in 2025, according to the BSP, but still exceeded the central bank's \$7 billion projection. Total inflows reached \$7.79 billion for the year, down from \$9.39 billion in 2024, mainly due to a decline in net debt instruments. In December, inflows settled at \$560 million, lower than November's \$894 million but above the \$427 million recorded a year earlier. Japan remained the largest source of investment, primarily supporting financial and insurance activities, while full-year equity placements from Japan, the United States, Singapore, and South Korea were directed toward manufacturing, wholesale and retail trade, and financial services.

GIR rose to a record level. The Philippines' gross international reserves (GIR) rose to a record \$112.72 billion in February, driven by higher gold valuations, continued external inflows, and proceeds from the national government's global bond issuance. The reserves were enough to cover about 7.5 months of imports and 4.2 times the country's short-term external debt, although gains were partly offset by a decline in foreign investments amid global market volatility.

Overseas remittances rise in January. Cash remittances in January 2026 reached \$3.02 billion, marking a 3.5% increase from the same month last year, supported by steady overseas employment and a weaker peso. Although remittances fell 14.3% from the December peak, reflecting normal post-holiday normalization, the inflows remained higher than in January 2025. Analysts expect overall remittance growth to remain positive this year, though geopolitical tensions in the Middle East could cause short-term fluctuations, while the BSP projects total inflows of \$36.6 billion for 2026.

Peso slides in March. The Philippine peso fell to a new all-time low of ₱60.74 per dollar by the end of March 2026, down from February's ₱57.67. The depreciation was driven by rising global oil prices, ongoing Middle East tensions, and a stronger US dollar, while the BSP's policy stance and domestic energy-related concerns also influenced market movements during the month.

DISCLAIMER: Historical performance is not indicative of future results. The price per unit may go up or down depending on market fluctuations. The Fund is NOT a deposit product, and, as such, yields are NOT guaranteed. The performance of the fund is reflected by the Net Asset Value (NAV) computed at the end of each business day.