The Weekly Snapshot

1 May 2023

ANZ Investments brings you a brief snapshot of the week in markets

US equity markets were higher last week, thanks to a late-week rally on the back of some strong earnings from large-cap tech names that outshone some soft economic data and ongoing banking concerns. The S&P 500 rose 0.9%, while the NASDAQ 100 benefited from the earnings beats to rise nearly 2%.

It was a mixed bag down under, with the NZX 50 rising 0.8%, while across the Tasman, the ASX 200 ended lower, in part to a decline in oil prices.

What's happening in markets

Corporate earnings were the main driver last week with several large-cap names reporting stronger than expected results, signs that companies are, at this stage, holding up well after the series of interest rate hikes over the past 12-15 months.

Meta (parent company of Facebook) was the standout, reporting first-quarter earnings per share of $2.20 and revenue of US$28.65 billion, both ahead of consensus. Furthermore, the company's forecast for Q2 earnings also exceeded expectations. By the end of the week, shares in Meta were up more than 12% and year-to-date, they have risen more than 80%.

Elsewhere, Alphabet (parent company of Google) and Microsoft also outperformed market expectations with Alphabet reporting 3% earnings growth, up from 1% from the prior quarter, while Microsoft's cloud revenue was the standout for the computing giant, topping US$22 billion, up 16%. The company added that it expects further growth in the cloud space as the Artificial Intelligence (AI) sector grows. "*We will continue to invest in our cloud infrastructure, particularly AI-related spend, as we scale to the growing demand driven by customer transformation. And we expect the resulting revenue to grow over time*", Microsoft CFO Amy Hood said after the release of the earnings report.

Economic data was not so positive with the US Federal Reserve's preferred measure of inflation – core personal consumption expenditures (PCE) index remaining stubbornly high – rising 0.3% over the month and 4.6% over the year, while headline PCE rose 0.1% for the month, and 4.2% on an annual basis. All numbers were either in-line or higher than most forecasts.

Additionally, there was some softer-than-expected growth data, with US GDP rising 1.1% on an annualised basis in the first quarter. There was a slowdown in private inventory investment which fell for the first time since 2021, signs businesses are starting to scale back purchases in an expectation for weaker demand in the coming months.

Against the backdrop of a mixed week were more concerns around First Republic Bank that culminated in the news that the Federal Deposit Insurance Corporation (FDIC) was preparing to place the bank under receivership. And over the weekend, it was reported that US regulators were trying to clinch a sale of the bank. On Friday, shares in the company fell more than 40%.

Finally, in New Zealand, consumer and business confidence data showed no significant signs of improving with the ANZ Business Outlook Survey mostly unchanged at -43.8. Although inflation expectations amongst those surveyed dipped further, it remains stubbornly high, at 5.7%. Meanwhile, the ANZ Roy Morgan Consumer Confidence index rose 0.8 points to 78.

What's on the calendar

It's a relatively busy week, especially in the US with the Fed meeting on Wednesday, more company earnings, and the always-important employment report on Friday.

The Fed is expected to raise the fed funds rate by a further 25 basis points, with most signs pointing to this being the last hike of the cycle as economic data. While inflation is slowing, activity and growth levels are deteriorating with the odds of a recession in the coming 12 months growing.

On employment, the US economy is expected to have added between 150k and 200k jobs in April, but with wages one of the key drivers, most of the attention will be on average hourly earnings with policymakers hoping to see continued easing of wage pressures.

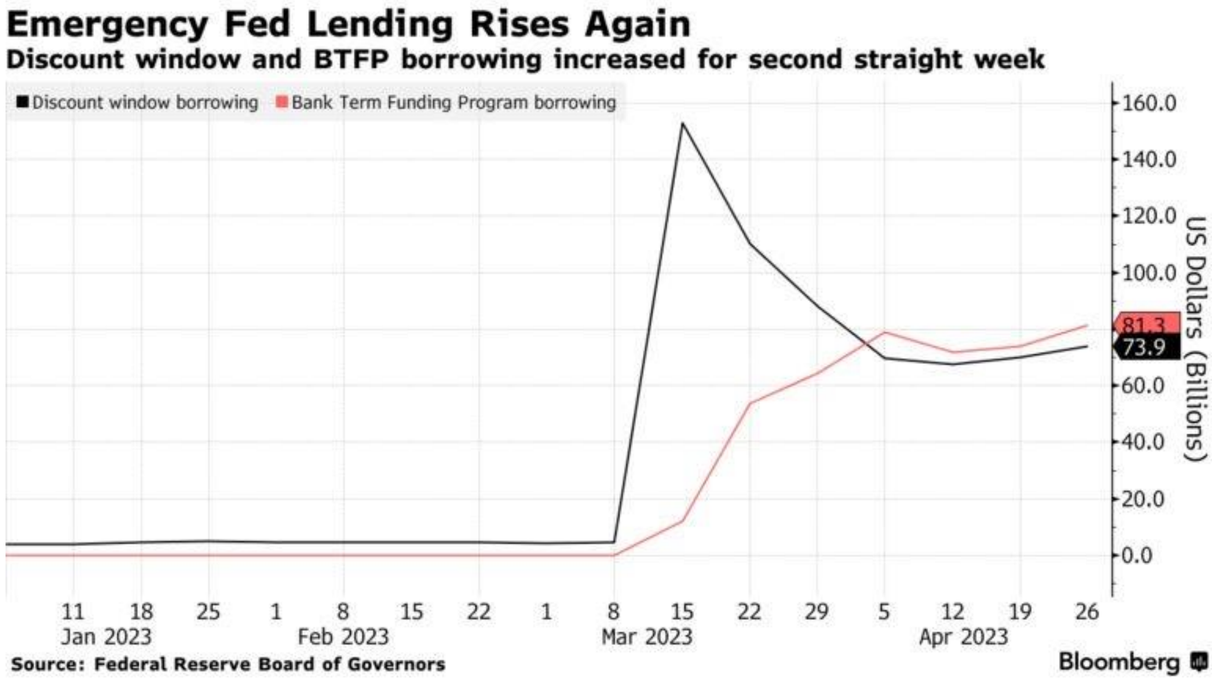
Staying in the US, corporate earnings roll on with Apple, Ford and Starbucks set to give a good gauge of the broader health of the US economy.

In New Zealand, employment figures on Wednesday will garner plenty of attention with the tight labour market continuing to pose problems for the Reserve Bank of New Zealand (RBNZ). However, with immigration figures rising and ongoing stress in some sectors (notably construction), we could see the labour market begin, albeit slowly, to turn south which could ease inflation pressures.

Finally, in other central bank news, the Reserve Bank of Australia (RBA) is expected to leave its policy rate unchanged, while the European Central Bank (ECB) is expected to raise its key policy rates by 25 basis points.

Chart of the week

On the back of growing stress in the banking sector, data last week showed that emerging lending from the Fed increased for the second week in a row, signs that stress remains in the sector, probably among the regional banks.



Here's what we're reading

Given what the economy has gone through over the past three or so years, it has held up fairly well, but where is the tipping point https://theirrelevantinvestor.com/2023/04/26/how-much-can-we-take/

Is this a soft landing or the start of a recession? - https://www.vox.com/money/2023/4/24/23691887/economy-fed-soft-landing-recession-jobs-unemployment