The Weekly Snapshot

10 July 2023

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

Global share and bond markets were lower last week, as investors tried to shake off fears that the US Federal Reserve (the Fed) may start hiking interest rates again later this month, following its 'pause' in June. It followed stronger-than-expected economic data in the US, and the release of minutes from the Fed's June meeting, which showed that "almost all" committee members had agreed that more tightening would likely be needed this year.

In the US, the S&P 500 Index fell 1.1%, while the NASDAQ Composite Index was down 0.9%. European markets were significantly weaker however, with the UK's FTSE 100 Index down 3.7%, and Germany's DAX Index down 3.4%. UK shares were sharply lower as investors began to worry that the Bank of England may need to engineer a recession in order to bring down inflation there.

New Zealand shares bucked the trend, with the NZX 50 Index up 0.4% last week, helped by the strong performance of Ryman Healthcare, and as shares in Pacific Edge bounced back on some positive newsflow (more below). Across the Tasman the ASX 200 Index was down 2.2%, as the Reserve Bank of Australia hit pause yet again, as it left interest rates unchanged following its meeting earlier in the week.

Bond markets were particularly weak given expectations for further rate hikes from the world's central banks, as these tend to struggle in a rising interest rate environment. The yield on the US 10-year government bond rose 23 basis points, to 4.07%.

Meanwhile, in the UK, the yield on the equivalent 10-year bond surged past the peak they reached last October in the aftermath of former Prime Minister Liz Truss' "mini-budget" - and to their highest level in almost 15 years – as some commentators now expect interest rates there to reach 7% - which would be a 25-year high.

What's happening in markets?

Strong jobs data in the US fueled expectations that interest rates there would soon resume their upwards path. First there was a report from ADP Research Institute, which suggested that hiring by private employers was strong last month, with nearly twice as many jobs created than expected.

Next there was the Labor Department's June jobs report, which provides perhaps a more comprehensive reading of the labour market. It showed that nonfarm payrolls rose 209,000. While the number of jobs created rose by less than expected, other aspects of the report added to inflationary concerns; average hourly earnings data are up 4.4% from a year ago, and the unemployment rate fell to 3.6%, from 3.7% previously.

Together, this has heightened fears that the Fed will resume rate hikes soon. The jobs data followed the release of minutes which showed that at the Fed's 13-14 June meeting, while almost all members had deemed it "appropriate or acceptable" to keep rates unchanged, some would have supported a 0.25% increase instead. It also showed that "almost all" supported further tightening ahead.

Following the strong jobs data, interest rate markets moved to price in an above-90% chance of a further 0.25% rate hike from the Fed's meeting later this month.

In the New Zealand market, the big news was that shares in Pacific Edge rose more than 110% after the company received a reprieve on funding for its CXbladder tests in the US. US Medicare funding for its cancer diagnostics test was due to end on July 17, but the company was advised that the local coverage determination process will be repeated, with an open meeting and an opportunity for public comment. Shares in the company had fallen 80% last month.

What’s on the calendar?

Following the hot jobs data last week, investors in the US will turn their attention to key June inflation data. Most are hoping that Consumer Price Index (CPI) data will continue its recent downwards trajectory. Last time around, all-important consumer prices had fallen to 4.0% (for the year to end May), down from 4.9% previously. The expectation this time is for a further drop to 3.0%.

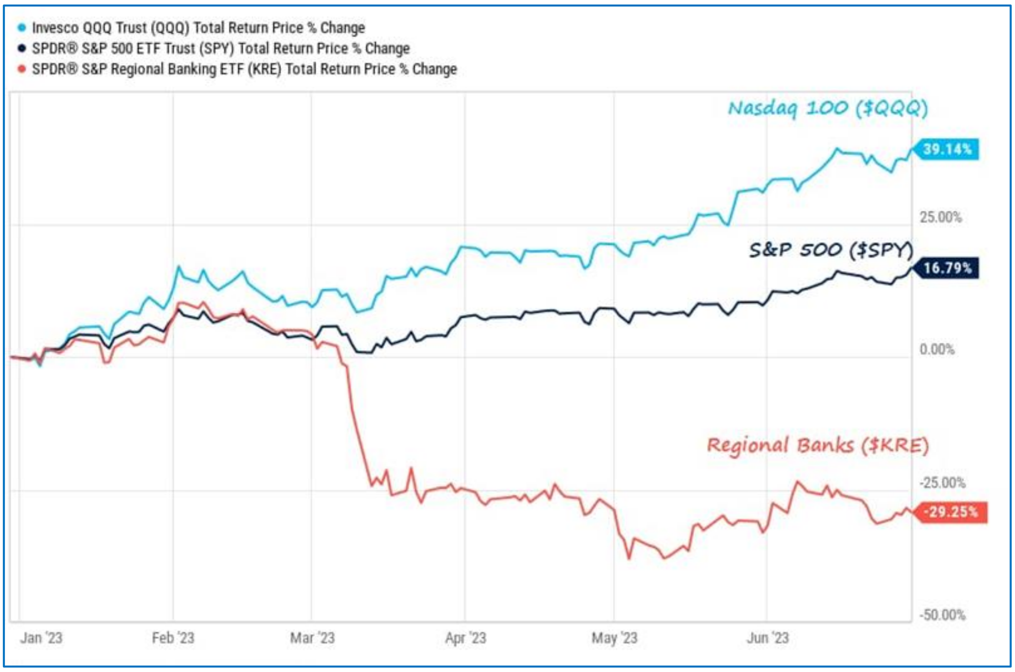
Elsewhere in the US, investors will turn their attention to what various Fed members have to say at their various speeches during the week, as well as Wednesday’s release of the Beige Book, which provides anecdotal information on current economic conditions – which is important, since it will give committee members a better sense of what’s happening across the regions.

It’s a fairly quiet week in Europe, although no doubt following last week’s events in the UK there will be much attention on what Bank of England’s Governor, Andrew Bailey, has to say about the state of the British economy. Meanwhile, in China, a raft of economic data is due to be released, including inflation and producer prices, and June trade data.

Finally, at home, we have the Reserve Bank of New Zealand’s monetary policy decision on Wednesday, with no change expected after the central banked pointed to the peak in rates having been reached.

Chart of the week

If someone had told you we’d see the 2nd, 3rd and 4th largest bank failures occur in the first half of the year, you’d probably have assumed share markets would be down big. Instead, as we reach the halfway point for the year, the pain has been limited to regional banks, while broad markets have surged higher – helped by the strong performance of tech companies with exposure to AI (artificial intelligence) trends.



Here’s what we’re reading

When my kids are my age: A look at what’s happening right now to get a sense for just how many things are going to change. [Click here.]

Attitudes have shifted in 3 major ways: The ‘most popular prediction’ coming into 2023 was that stocks would tumble during the first half of the year before rallying in the second half. [Click here.]

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