The Weekly Snapshot

13 February 2023

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

After a good start to the year, US equity markets retreated slightly last week after some commentary from policymakers suggested that interest rates could be in the 'higher for longer' camp, despite some signs that a recession could be on the horizon. For the week, the S&P 500 fell about 1%, while the high-flying NASDAQ 100 (which was at one point up more than 15% on the year) retreated more than 2%.

Australasian equities also fell, with the NZX 50 ending a five-week winning streak, finishing down 0.2%, while across the Tasman, an interest rate hike weighed on the ASX 200, which fell about 1.7%

Global bonds fell across the board with US markets leading the way. The US 10-year government bond yield hit a five-week high, closing at 3.74%, up nearly 20 basis points on the week.

What's happening in markets?

On the whole, it was a relatively quiet week with equity market weakness coming on the back of some slightly hawkish comments from two key policymakers in the US.

Firstly, Minneapolis Fed President Neel Kashkari said in an interview on Tuesday that when assessing economic data, he is "not seeing much of an imprint of our tightening to date on the labour market". His comments came just days are the blockbuster employment report that saw the US economy add more than 500,000 jobs in January, while the unemployment rate hit its lowest level since 1969.

Meanwhile, the Chairman of the US Federal Reserve, Jerome Powell, spoke at the Economic Club of Washington where he too cited the strength in the US employment market as a reason for continued policy tightening, adding that if there is not a softening in prices – especially wages – then the central bank would not hesitate to tighten more than the market is pricing in.

> ***"If the data were to continue to come in stronger than expected and we conclude that we need to raise rates more than we previously thought, then we would certainly do that. We would certainly raise rates more",*** Powell said.

Although the employment market remains robust, a closely-watched recession indicator continues to point to a slowdown in growth. The 2s/10s, or spread between the US two-year government bond yield and the 10-year equivalent dived further into negative territory, the deepest since the 1980s.

Finally, in Australia, the Reserve Bank of Australia (RBA) lifted its policy rate by 25 basis points to 3.35%, the highest level in more than a decade. Like most policymakers in developed nations, RBA Governor Philip Lowe reiterated that more tightening was needed to tame inflation. "The Board expects that further increases in interest rates will be needed over the months ahead to ensure that inflation returns to target and that this period of high inflation is only temporary", Lowe said.

What's on the calendar

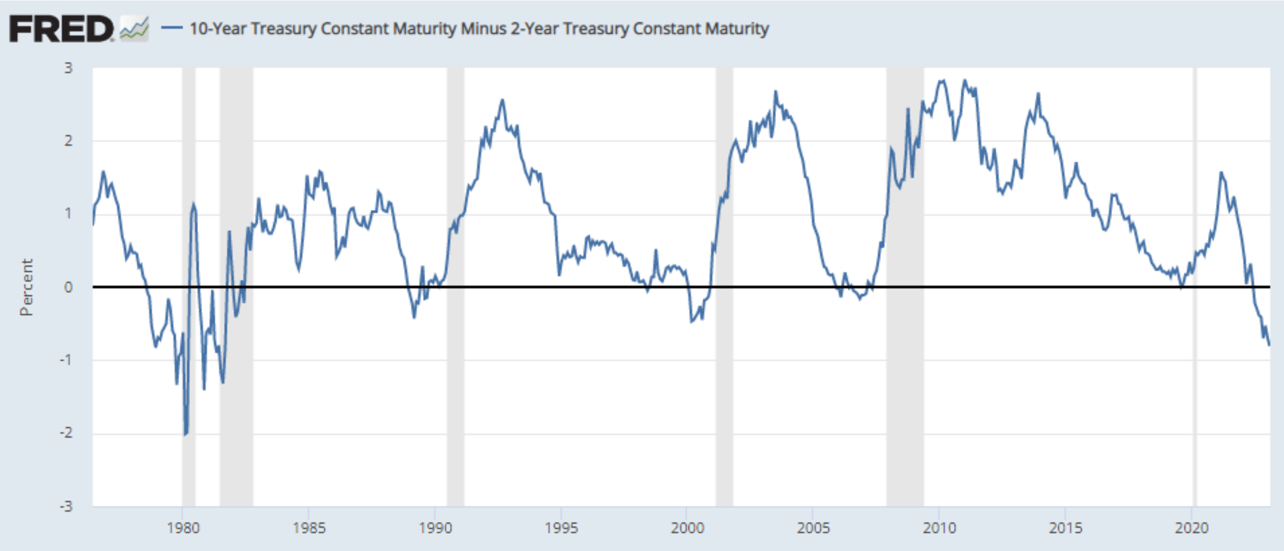
Although earnings season is slowing down, economic data heats up again this week, headlined by US inflation figures for January. Investors will be hoping the trend of downside surprises continues with monthly inflation expected to rise by about 0.4%, which would see year-on-year inflation fall below 6.5%. Any surprise to the topside, which would come after a strong US employment report and some hawkish Fed speak, would likely weigh on equity markets.

Also in the US, retail sales figures for January are released and after back-to-back negative readings, there are signs higher prices are starting to hit consumers in the pocket. Another weak report would add to the notion that a recession is looming.

Finally, in the UK, inflation data for January is expected to show that prices continue to run at a year-on-year pace above 10% with food prices showing little signs of moderating.

Chart of the week

A visual of the yield curve spread back to the 1970s shows that it inverted before recessions in 1990, 2001, and 2008.



Here's what we're reading

Will the yield curve recession predictor be wrong this time - https://www.axios.com/2023/02/10/yield-curve-may-be-wrong-when-it-comes-to-predicting-recession

Is anyone listening to Jerome Powell? - https://www.theatlantic.com/ideas/archive/2023/02/jerome-powell-federal-reserve-interest-rates/672990/

People like to get mad about stock buybacks, but how bad are they? - https://noahpinion.substack.com/p/stock-buybacks-dont-really-matter