The Weekly Snapshot

13 March 2023

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

Equity markets fell last week as a myriad of worries spooked investors leading to some share markets recording their worst weekly performances of the year. In the US, the S&P 500 fell about 4.5%, its worst week in about six months, while the NASDAQ 100 fell nearly 5%. It was the same in Europe and Australasia with most share markets ending the week lower.

Bond markets had a volatile week but eventually finished well higher as concerns around the banking system outweighed strong employment data, leading to a demand for safe-haven assets, including government bonds. For the week, the yield on the US 10-year government bond fell about 30 basis points, closing at 3.70%.

What's happening in markets?

The major news last week was the fall of Silicon Valley Bank (SVB), which culminated in the Federal Deposit Insurance Corporation (FDIC) shutting down the bank and placing it under receivership.

The downfall began on Wednesday when the bank began to sell holdings of US treasuries to fund a shortfall of deposits as its customers – many tech and venture capital startups – began withdrawing money to meet their own cash-flow requirements. The bank's portfolio of treasuries was yielding much lower than the current market value, meaning the sale saw it realise a loss of nearly US$2 billion, which it needed to fund.

Then on Thursday, SVB announced it would sell more than US$2 billion in common equity and convertible stock to meet the shortfall. This news, coupled with a run on deposits as customers sought to withdraw their funds, sent the company's share price into freefall, dropping more than 60% on the day. It's worth noting that the company's deposit base was very concentrated (e.g. large technology companies), which increased the risk of large clustered withdrawals.

The following day, after the capital raise failed, the FDIC stepped in and said it would sell the company's assets in an attempt to pay out future dividends to uninsured depositors.

If that wasn't enough to worry investors, in a speech to US lawmakers earlier in the week, Chairman of the Federal Reserve, Jerome Powell, said that stronger-than-expected economic data indicates the Fed may need to do more to temper inflation, opening the door to higher interest rates.

> "***If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes***" Powell said.

Then on Friday, these concerns were exacerbated with another robust US employment report that saw the economy add a further 311,000 jobs, well ahead of expectations. On a positive note for the Fed, wage prices rose at a slower pace than expected.

Down under, the Reserve Bank of Australia (RBA) suggested that it is getting closer to pausing on interest rate hikes. This followed a widely-expected 25 basis point increase to its Official Cash Rate (OCR) to 3.6%, its highest level since mid-2012 and its tenth consecutive rise.

Rounding off a volatile week, economic data in New Zealand included the ANZ-Roy Morgan Consumer Confidence Index, which showed that consumer confidence fell again in February amid high inflation and rising interest rates. The survey showed an overall fall of 3 points, to 79.8. It also showed that consumer perception about their own financial situations fell 10 points to its lowest level since 2008, while the proportion of people who believed it was a good time to buy a major household item, a key retail indicator, fell 7 points to a net -35%, its lowest level since the 2020 COVID-related lockdowns.

What's on the calendar

As well as investors keeping a close eye on SVB-related news, the latest US inflation report will likely garner a lot of attention with recent price data and central bank rhetoric suggesting interest rates may have to rise higher than previously thought. Also in the US, PPI and retail sales data are released.

In Europe, the European Central Bank (ECB) is expected to raise its key interest rates by 50 basis points with the main driver being the post-decision press conference that will likely provide guidance on further policy changes.

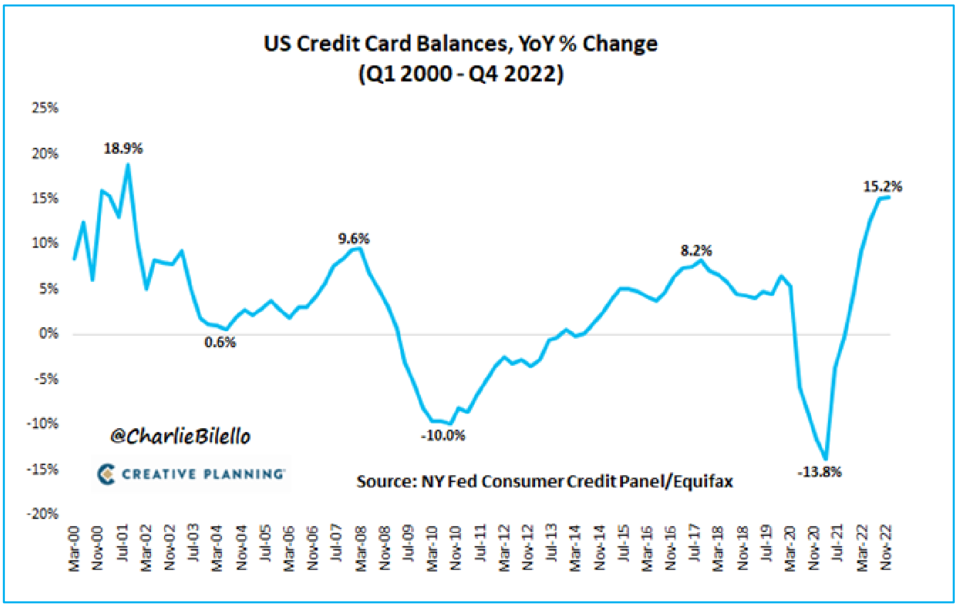
Finally, in New Zealand, GDP data for the final quarter of 2022 is expected to show the economy slowed, or even contracted, after the stellar 2% rise in the previous quarter.

Chart of the week

High inflation appears to be taking its toll. With wages failing to keep pace with rising prices, Americans are increasingly turning to credit to fill the gap. Credit card balances in the US increased 15.2% over the last year, the biggest year-on-year jump since the 2001 recession.

This trend will become increasingly problematic given the skyrocketing cost of debt. At 19%*, the average interest rate on credit cards is already at a record high. And with the Fed expected to continue to raise interest rates, this is likely to go higher.

* US Commercial Bank Interest Rate on Credit Card Plans for All Accounts



Here's what we're reading

A Fed working paper concluded that prolonged periods of loose monetary policy can lead to financial instability - https://www.frbsf.org/wp-content/uploads/sites/4/wp2023-06.pdf

Just days before the collapse of SVB, the chairman of the FDIC warned of risks among financial institutions, in particular, the balance sheet of banks after the Fed's unprecedented interest rate hikes - https://fortune.com/2023/03/10/svb-collapse-fdic-takeover-martin-gruenberg-620-billion-hole-banks-balance-sheet/