# The Weekly Snapshot

## 13 November 2023

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

International share markets rallied on optimism the US Federal Reserve (the Fed) may be done with lifting US interest rates and were given a further boost by declining bond yields. A fall in global oil prices – to their lowest level since July - also buoyed investor sentiment.

In the US, the S&P 500 Index finished the week up 1.3%, while the tech-heavy Nasdaq 100 Index notched a gain of 2.8%. While the S&P 500 Index's seven-day rally ultimately ran out of steam, by the end of the week the index was more than 7% up from its recent October low.

Share markets in most other major economies similarly trended higher but were unable to match the US market's strong performance. In Europe, Germany's DAX Index gained 0.3%, while here at home the NZX 50 Index managed a 0.2% gain. The UK market suffered however given its heavy weighting to energy companies, which struggled as oil prices fell, and this saw the FTSE 100 index down 0.8%. Japan's Nikkei 225 Index was the only other standout performer, as it gained 1.9% as its market continues to benefit from the Bank of Japan's moves to normalise interest rate policy there.

Bond markets started the week strong, with bond yields continuing to decline having breached the 5% level only a few weeks ago. However, on Thursday, a speech by Jerome Powell, Chairman of the Fed, caused bond markets to do an about-turn. While Powell reiterated that the bank's focus was to bring inflation back to target level, he said it was "not confident" that monetary policy is "sufficiently restrictive to bring inflation down to 2 per cent". And although he said the central bank would remain careful about overtightening, he also warned it wouldn't hesitate to hike interest rates again, if needed.

This spooked bond markets, which saw bond yields moving back higher again. Having started the week at 4.57% and falling as low as 4.47%, the yield on the US 10-year government bond finished the week back up at 4.65%. The equivalent New Zealand government bond however saw its yield 13 basis points lower, finishing the week at 5.13%.

**What's happening in markets?**

US crude oil prices fell to their lowest level since July, and below the level seen at the start of the Israel/Hamas conflict. Its price fell by more than 4% last week, to just below US$77 a barrel.

Its falls may be largely attributable to slumping oil demand, especially from China which has seen its lack-lustre Covid-recovery continue. During the week, China (the world's biggest importer of oil), announced that its total exports of goods and services had fallen by more than expected – and this added to worries about the demand for energy going forward. This has been exacerbated on the supply side, with the US pumping oil at a record rate. In fact, US crude oil stocks rose by almost 12 million barrels last week. And all this despite Russia and Saudia Arabia sticking to their voluntary production cuts.

As mentioned above, a key focus during the week was Jerome Powell's speech at the International Monetary Fund. He said the Fed would not hesitate to tighten policy further if it becomes apparent that more tightening is required. However, he added that the Fed will continue to move carefully to address both the risk of being misled by a few good months of data and the risk of overtightening. Interest rate markets were largely unchanged following the speech; the probability of another rate hike increase before 2024 is now 9.1%, according to the CME FedWatch Tool, a real-time tracker than measures rate hike probabilities. The tracker indicates a 90.9% probability that rates will not increase during that time.

Elsewhere, earnings season started to wind down. In the US, around 92% of companies in the broad-based index have posted results, with more than 81% beating earnings estimates. With all the big companies having reported (except Nvidia Corp), most of the surprises are already out there. It has certainly helped the recent recovery in the S&P 500. In fact, during the week, a number of stocks hit new 52-week highs, including the likes of Hilton Worldwide and Adobe, while Synopsys hit an all-time record high. Although, it should be noted that this is still low historically speaking, with approximately 5% of companies reaching new 52-week highs.

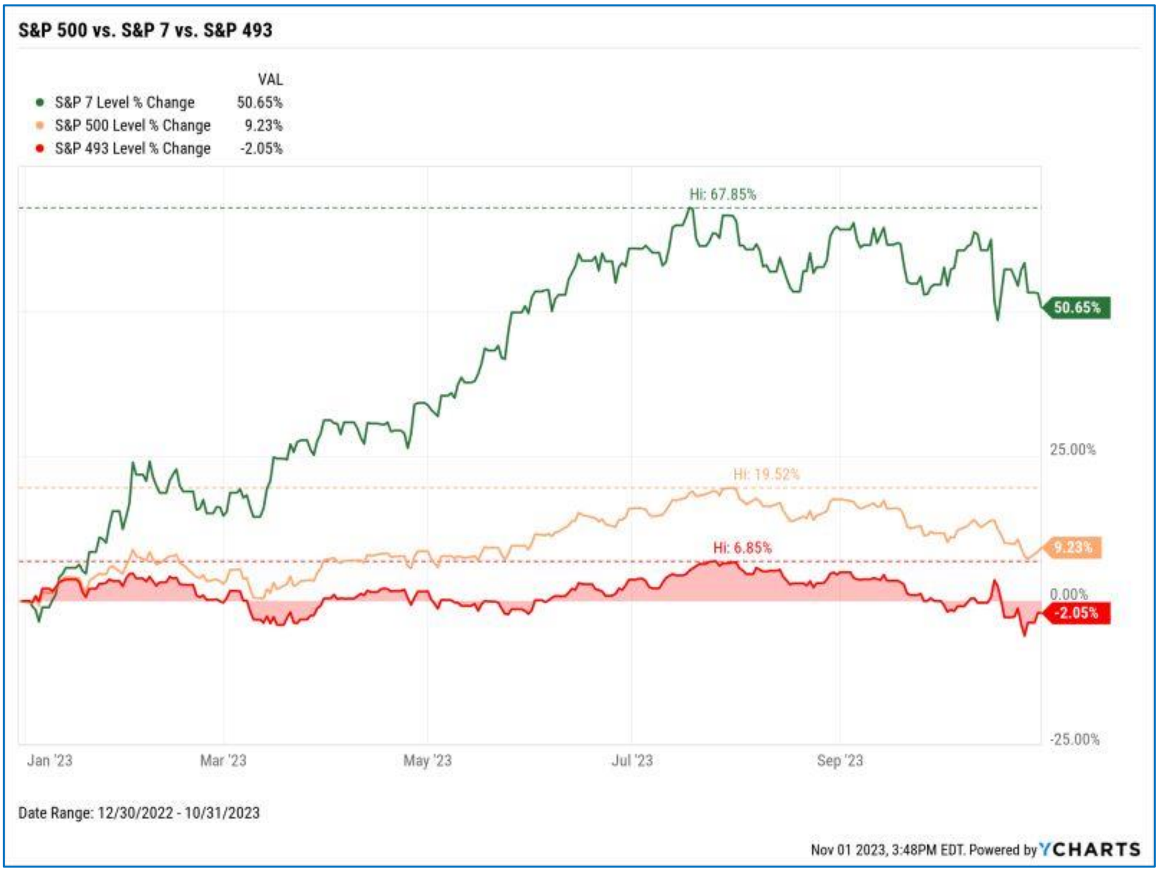
**What's on the calendar?**

It is another relatively quiet week ahead, with US CPI (Consumer Price Inflation) the key focus on Wednesday (US time). Markets are expecting the annual CPI headline inflation rate to fall to 3.3% in October, from 3.7% in September. Meanwhile, annual core CPI is expected to stay the same at 4.1%.

In September, shelter inflation surprised to the upside, but leading indicators continue to suggest a moderation in this component. Given the shelter component's outsized weighting in the CPI basket, we expect shelter to put downward pressure on CPI in the coming months.

**Chart of the week**

Although it's a couple of weeks old and doesn't capture the market's recent rally, the chart below shows what a great year it's been for the so-called 'Magnificent Seven' stocks (Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia and Tesla). On a market cap-weighted basis from the start of the year, if you had invested in just these seven companies you would have enjoyed a +50% return, whereas the market's overall return is just over 9%. Excluding these 7 companies would have seen a 2% decline.

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