

# The Weekly Snapshot

15 May 2023

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

It was a mixed week for global equity markets, with investors largely focused on key US inflation data, a US jobs report, and a meeting of the Bank of England's interest rate-setting committee.

US equity markets were up and down, with the S&P 500 Index and the Dow Jones Index finishing the week 0.3% and 1.1% lower, while the NASDAQ 100 Index managed to hold onto a small gain of 0.4%. Equity markets in Europe were also modestly lower, although at home, the NZX 50 Index and the ASX 200 Index both gained 0.5%.

Bond markets traded sideways too. The yield on the US 10-year government bond finished the week 3 basis points higher, at 3.47%, while the New Zealand equivalent fell 6 basis points, to 4.03%.

### What's happening in markets

US inflation fell to below 5% for the first time in two years. Annual CPI (Consumer Price Index) inflation was 4.9% in the 12 months to April, slightly lower than expected. The pace of annual price rises was down from 5.0% in March – and marks the tenth month in a row that price rises have slowed. Inflation peaked at 9.1% in June last year, but has fallen since. While it's clearly on a downward trend, it's worth remembering that inflation remains well above the central bank's target rate, of 2.0%, and core inflation, which does not include food and energy prices, remained persistent, rising 5.5% over the same period.

Earlier this month, Jerome Powell (Chair of the US Federal Reserve) signaled that the central bank may have done enough to get inflation under control and could be ready to pause with further rate hikes. Markets certainly appeared to think so; following the release they rallied by around 0.5%, and market expectations for a further rate hike in June fell from around 17% to 5%.

The inflation reading came just days after a stronger-than-expected US jobs report. Nonfarm payrolls increased by 253,000 in April, above expectations and indicative that the labour market is still red hot. The unemployment rate declined to 3.4% and average hourly earnings growth also accelerated. While overall it points to a robust labour market, leading indicators foreshadow a deceleration going forward. For example, the number of Americans filing new claims for jobless benefits jumped to its highest level since late 2021, suggesting that higher interest rates are finally beginning to bite.

In other news, the Bank of England raised its bank rate by 25bps to 4.50%, and updated its projections which showed a significant improvement in the economic outlook as a result of falling energy prices, economic resilience and better-than-expected fiscal policy. In China, economic data disappointed, as its annual CPI inflation moderated to 0.1%, and aggregate financing (a broad measure of credit) fell significantly in April to CNY 1.22 trillion, from CNY 5.38 trillion. All of which point to China's post-COVID recovery falling short of expectations.

### What's on the calendar

In the week ahead, investors will continue to closely track updates on the ongoing debt ceiling negotiations, with a key meeting set to take place between President Joe Biden and House Speaker, Kevin McCarthy. Elsewhere, we're expecting earnings announcements from a number of retail heavyweights, including Home Depot, Target and Walmart. Given weaker-than-expected consumer confidence, it'll be interesting to hear what the managements of these companies are saying.

Meanwhile, on Tuesday, there's a Senate Banking hearing on the collapse of Silicon Valley and Signature Banks. The former CEO of Silicon Valley Bank will be testifying along with the former president and former chairman of Signature Bank.

In economic data, we have retail sales in the US and China, and in the Eurozone, we have Q1 GDP (Gross Domestic product) and April inflation data.

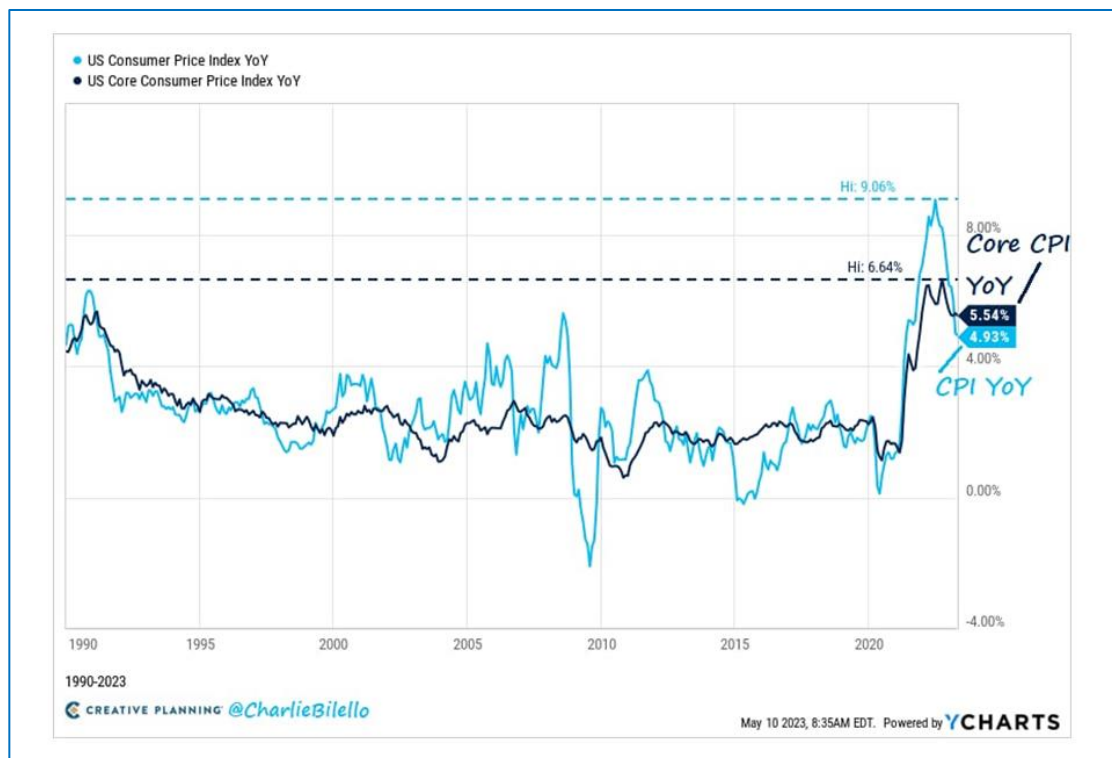
Finally, in New Zealand, the Government will release its 2023 Budget on Thursday. In the lead up to Thursday's release, we have already seen about \$1 billion earmarked for the Cyclone Gabrielle recovery, including funding for transport, schooling, flood protection and mental health support

### Chart of the week

The latest CPI report was slightly better-than-expected, with overall inflation falling to 4.9% That was the tenth consecutive decline in the annual rate of inflation, and the lowest since April 2021.

What's driving that decline? Lower rate of inflation in fuel oil, gasoline, used cars, gas utilities, medical care, apparel, new cars, food at home and electricity.

While rates of inflation in transportation, food away from home and shelter have increased since last June, declines in the other major components have outweighed these increases.



### Here's what we're reading

Finance is like fashion. Wait long enough and the same arguments come back in style

<https://awealthofcommonsense.com/2023/05/concentration-in-the-stock-market-2/>

Pertinent for now: Why Banks Keep Failing - <https://www.theatlantic.com/ideas/archive/2023/04/why-first-republic-failing/673914/>

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