

The Weekly Snapshot

17 June 2024

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

US equity markets finished the week higher following better than expected CPI (Consumer Price Index) data, and as the US Federal Reserve (the Fed) left interest rates on hold. The S&P 500 Index rose 1.6%, while the Nasdaq Composite Index was up 3.2% - both reaching record highs.

European markets traded lower however, following a slump in France's equity market. This was on news of President Emmanuel Macron's decision to call a snap national election following a surge for his far-right rivals in the European Parliament elections. The Euro Stoxx 50 Index fell 4.2%, while France's CAC 40 Index was down 6.2% over the week.

The New Zealand share market was flat this week, with the NZX 50 Index up 0.1%. Across the Tasman, the ASX 200 Index underperformed other global markets, finishing the week down 1.7%, taking its direction mainly from Asian markets, which struggled given mixed economic data out of China.

In fixed interest, most major bond markets finished the week higher following the softer inflation reading in the US. While the Fed retained interest rates at current levels - as expected - officials signalled one interest rate cut for later in the year.

What's happening in markets?

It was a big week in markets, with all eyes on the US inflation data and the meeting of the Fed's interest rate-setting committee. In the event, inflation was weaker than expected, with the CPI unchanged for the month of May and lower than the 0.1% forecast. The annual inflation rate came in at 3.3%, which was also below expectations, and down from the 3.4% reading in the prior month. The core inflation readings, which exclude volatile energy and food prices, were both also lower than anticipated.

Later the same day, the Fed left the fed funds rate unchanged, and indicated that progress had been made on taming inflation. Its accompanying statement said, "***in recent months, there has been modest further progress toward the Committee's 2% inflation target***". Previously its statement had said there had been "***a lack of further progress***" on inflation.

The Fed's forward forecasts showed that it now expects only 1 rate cut this year, and not the three it had expected in March when it had last released its forecasts. It also raised its long-run rate of interest (a level of rates that neither boosts nor restricts growth). Despite this, markets reacted positively to signs the central bank appeared to be winning in its fight against inflation and the likelihood of more aggressive cuts heading into 2025.

Political wranglings took centre stage in European markets. French president Emanuel Macron called for an election, despite having three more years left in his term. It follows a big victory for his rival, Marine Le Pen's National Rally in a European Parliament vote. While the outcome of that vote has little bearing on national politics, he's decided that continuing his current mandate without a new consultation would put strain on the political system - especially when he already lacks a clear majority in the French parliament. Voting will take place at elections on 30 June and 7 July. Meanwhile, across the English Channel, politicians in the UK are out and about drumming up support for their parties ahead of its election on 4 July. Both the UK and European markets were down this week.

Meanwhile, in Japan, the focus was on Q1 Gross Domestic product (GDP) data and the Bank of Japan's interest rate meeting. Its economy shrank at an annual rate of 1.8% in the first quarter, and against this backdrop, its central bank kept interest rates unchanged.

In company specific news, it was a good week for Apple Inc, and this was the main driving forces behind the outperformance of the technology sector. Shares in the company soared almost 8% to a new high, after it announced plans to boost its operating system with OpenAI's ChatGPT. While there was an initial cool reception to the news, its shares rallied as investors absorbed the news.

What's on the calendar?

It's a relatively busy week ahead, with central bank meetings in the UK, Australia and Switzerland. The Bank of England meeting will be the key one to watch, with inflation data due out just ahead of its decision. While no change in policy is expected, accompanying comments (and the inflation reading) will be scrutinised to get a better gauge of when the UK could see a move to lower interest rates.

In terms of economic data, we will also see flash June PMI surveys, as well as industrial production and retail sales in the US.

At home the key focus will be on first quarter 2024 GDP data. The New Zealand economy has delivered two back-to-back quarters of negative growth, so investors will be keen to understand if the economy has continued this trend or managed to creep out of recession territory.

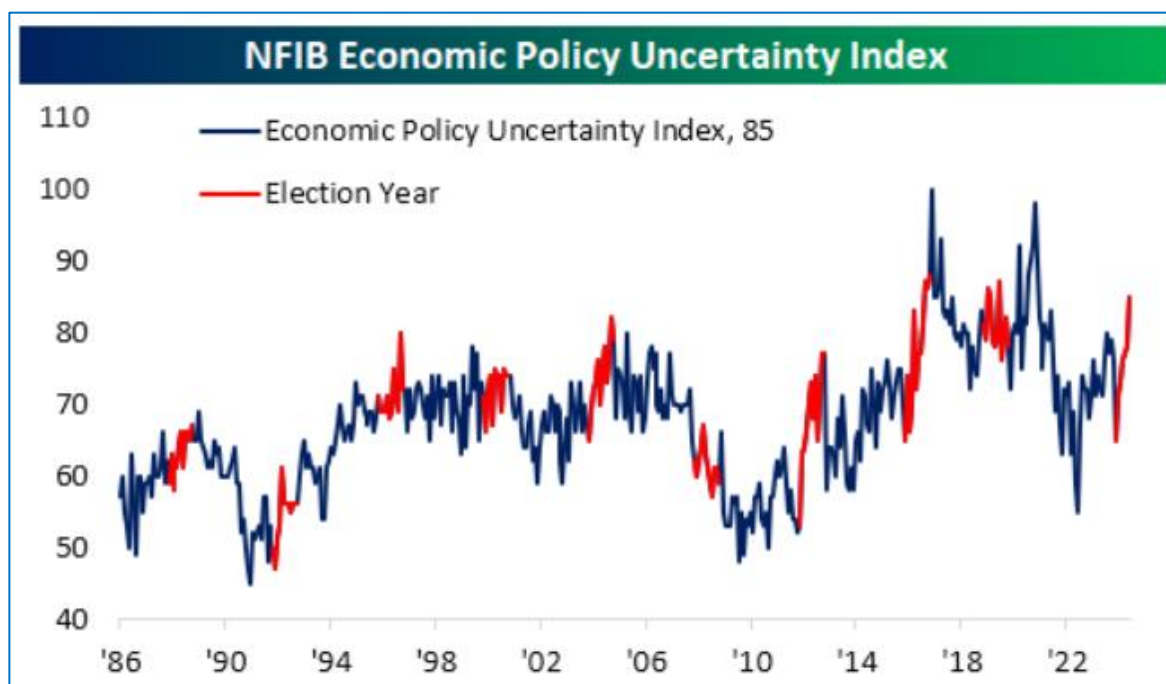
Chart of the week

Snap elections called in France and the UK add to the number of major elections taking place this year. We've already had elections in India, Russia and Taiwan, to name a few. Along with these new ones, all eyes will no doubt turn to the US elections in November.

Last week, the National Federation of Independent Businesses (NFIB) in the US, published its latest report on small business sentiment for May. The small business sector is responsible for the production of over 40% of GDP and employment and is therefore a crucial part of the economy.

Of note was a significant pick-up in the *Economic Policy Uncertainty Index*, which jumped 9 percentage points, hitting its highest level since November of 2020 – when the COVID-19 pandemic was in full swing.

The Uncertainty Index does typically rise in the 12 months before a presidential election. This time however, the increase has been larger than normal, with a 20 percentage point jump since November. Assuming it follows the pattern of the past three election cycles, it would not be surprising to see it continue to rise through to election day. It could suggest a pick-up in volatility over coming months.



Here's what we're reading

Loaded up with junk: Extra profits are the only explanation for many fees businesses charge. [Click here](#).

Josh Brown: My big picture idea about the second half of 2024. [Click here](#).

Walgreens is cutting prices on 1500 items, joining Target, Walmart and Amazon. [Click here](#).