The Weekly Snapshot

18 March 2024

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

It was a mixed week for global equities, with US markets falling after economic data showed pricing pressures persist, while in Europe, share markets were mostly higher, led by the Euro Stoxx 50, which recorded its eighth-consecutive weekly gain.

Meanwhile, in Asia, Japan's Nikkei 225 fell nearly 2.5% - making it one of the worst-performing share markets over the week – as investors began to prepare for the possibility of higher interest rates in Japan. And in Australasia, markets were also weaker, with the ASX 200 down over 2%, while New Zealand's NZX 50 ended the week down 1.3%.

Bond markets were lower across the board – in particular US and Japanese markets. In the US, the yield on the 10-year government bond rose more than 20 basis points, closing above 4.3%, while Japan's equivalent nearly hit 0.8%, its highest level of the year, before closing at 0.78%.

What's happening in markets?

US inflation data dominated proceedings last week, which showed prices rose 0.4% in February, and 3.2% from a year ago. The annual reading was a touch higher than forecasts. The core measure of inflation, which strips out food and energy prices, rose 0.4% on the month, and 3.8% on the year – both slightly above consensus. Rising energy prices helped lift the headline number, while food prices were flat. Elsewhere, shelter inflation, which continues to be a thorn in the side of policymakers, continued to climb, increasing 0.4% in February.

Meanwhile, adding to concerns around sticky inflation was US producer prices, which increased more than expected in February. The producer price index (PPI) rose 0.6% over the month, well above expectations amid rising cost of goods, which accounted for two-thirds of the increase in headline PPI.

In New Zealand, further signs consumers are clamping down on spending was evident with electronic retail card spending declining 1.8% in February. This comes on the back of eight straight quarterly declines in retail sales.

What's on the calendar?

All eyes will be on the US Federal Reserve (the Fed) meeting on Wednesday, where it is widely expected that the central bank will keep interest rates unchanged. However, of more interest will be comments and projections around the future path of monetary policy.

In its last economic projections (December), the Fed indicated it expects three interest rate cuts in 2024, however, after a string of upside surprises to inflation and jobs data, and robust growth figures, the risk is that they may dial some of this back.

Meanwhile, the Bank of Japan (BoJ) may end the world's last negative interest rate policy when it meets on Tuesday. Interest rate markets are split as to whether the central bank will lift interest rates now or wait until its April meeting, which would be the first hike by the BoJ since 2007. The case for a March hike grew when several Japanese firms agreed to solid pay increases as part of this year's Spring wage talks.

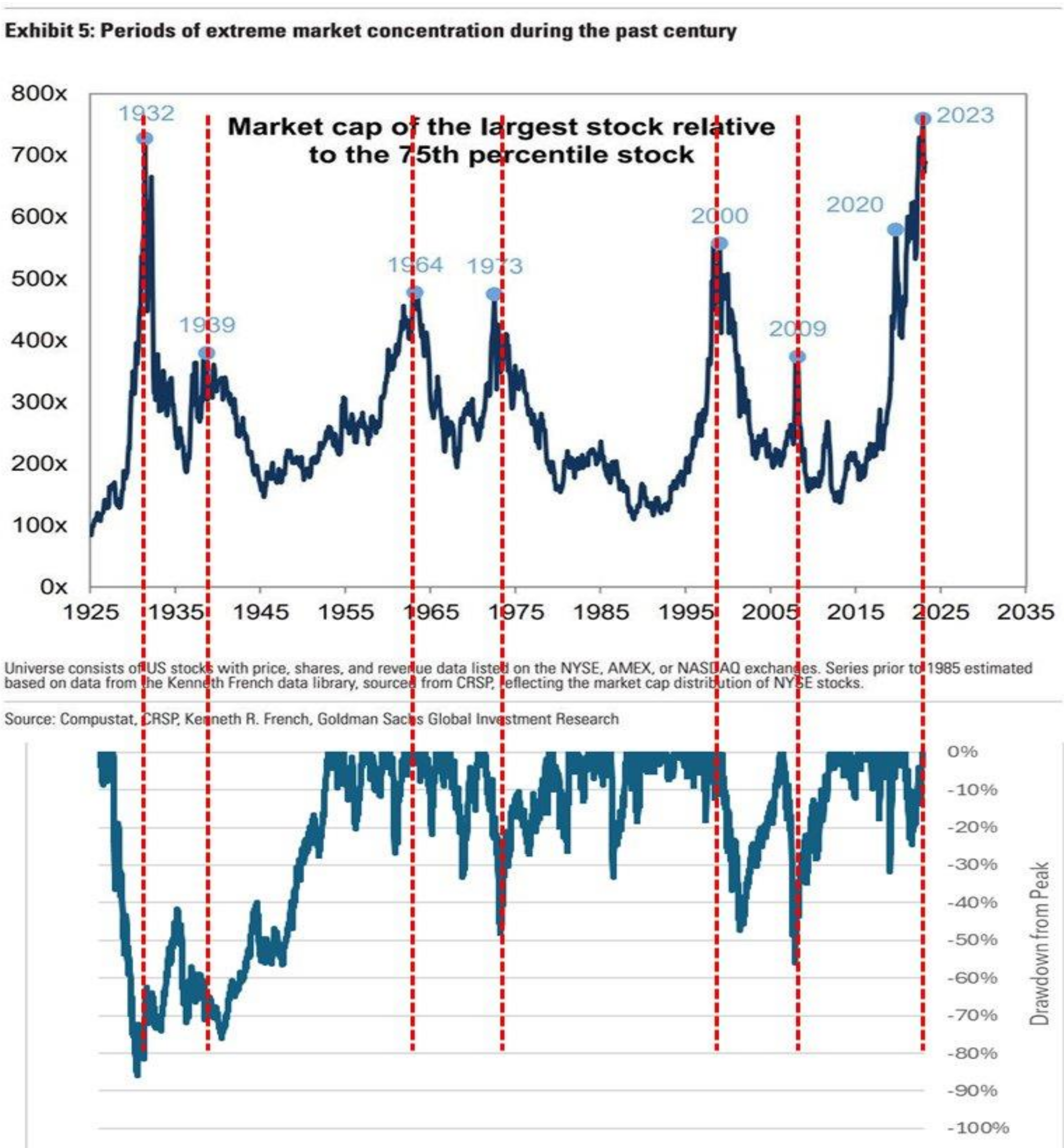
Elsewhere, there will also be interest rate decisions from the Bank of England (BoE) and Reserve Bank of Australia (RBA) where both are expected to leave interest rates unchanged.

In economic data, there are inflation readings out of the UK, Canada and Japan, while closer to home, New Zealand growth figures will be closely watched as signs the local economy has been slowing. It is expected the economy grew slightly in the final quarter of 2023, but should the economy have contracted in Q4, it would mean the economy entered a technical recession (defined as two consecutive quarters of negative growth).

Chart of the week

Share market concentration is becoming a hot topic with the Magnificent 7 making up a significant portion of the S&P 500 (~25%). And of those three – Microsoft, Apple and Nvidia – make up about 15% of the 500-company index.

Below shows just how concentrated the market has become from the top to the bottom (the 75% percentile). And if history tells us anything, when this ratio is stretched a pullback is potentially on the cards.



Here's what we're reading

What's the Investment Case For Gold? [Click here].

Financial Nihilism by Travis Kling. [Click here].

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