The Weekly Snapshot

20 November 2023

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

Share markets continued their impressive run last week, with most global indices recording their third straight week of gains, helped in part by the news pricing pressures in the US were easing, raising hopes that the US Federal Reserve (the Fed) may not need to lift interest rates any further during this cycle.

For the week, the S&P 500 rose 2.2%, trading to a 10-week high, while the NASDAQ Composite rose 2.4%. Meanwhile, New Zealand equities were also higher, but gains were a little more limited, with the NZX 50 rising 0.3%, while in Australia, the ASX 200 rose 1%.

Bond markets also had a good week, with global yields lower. The big movers were in the US, where its 10-year government bond yield fell about 20 basis points, while the UK's equivalent fell to a six-month low, down more than 20 basis points over the week. And in New Zealand, the 10-year government bond yield dropped back through 5%, finishing at about 4.9%.

What's happening in markets?

US inflation garnered the most attention last week, and it was good news for policymakers with October prices unchanged from a month ago, and up 3.2% from a year earlier. Both numbers were below forecasts. The softer-than-expected inflation reading was attributed to several factors, most notably oil prices, which have witnessed a sharp decline from their late September peaks, while prices for used cars and trucks declined on a monthly basis. On the other hand, the biggest price increases were in housing and food.

Core inflation, which strips out volatile food and energy components, was 0.2% higher in October and 4% higher over the year. Meanwhile, producer prices fell 0.5% in October, the biggest decline in three-and-a-half years, further evidence that pricing pressures continue to ease.

In other economic data, US retail sales fell for the first time in seven months, declining 0.1% in October, while the number of Americans filing for new unemployment benefits rose to a three-month high.

Down under, there were signs New Zealanders are starting to clamp down on spending with credit card data showing spending in the retail sector fell by 0.7% in October, compared to a month prior. The decline was led by apparel (-2.1%), durables (-1.1%) and consumables (-0.3%), while spending on fuel (+0.4%) and motor vehicles (+0.7%) increased.

Finally, in earnings, some of the big bricks-and-mortar retailers, including Walmart, Target and Home Depot, reported last week. It was a mixed bag, with shares in Target rising nearly 20% over the week as it reported a jump in profit, while shares in Walmart fell nearly 7% after its company tempered expectations for the coming quarter. "*We still expect sales growth to moderate in Q4 versus prior quarters as grocery inflation further normalises towards historic levels*", the company's CFO said.

What's on the calendar?

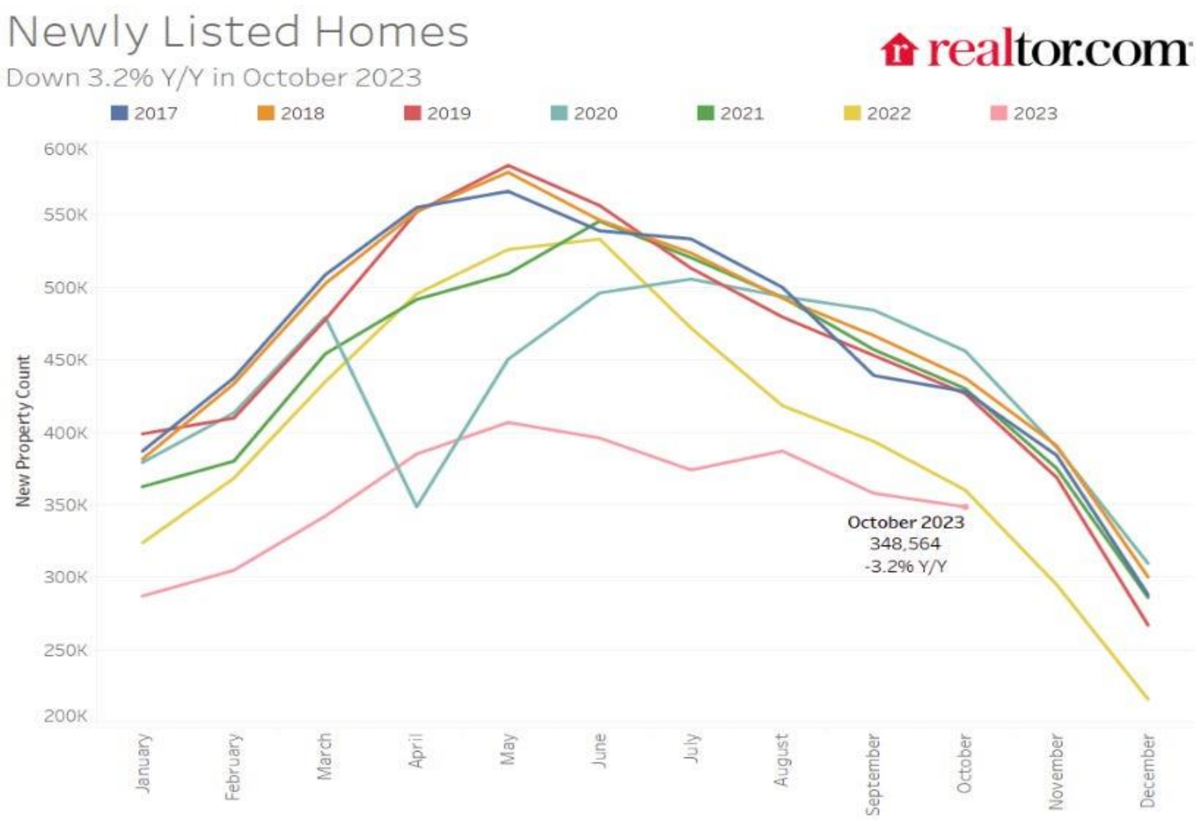
It's a quieter week ahead with US markets closed Thursday for Thanksgiving.

Economic data that is released will centre on global PMI (Purchasing Managers' Index) figures from Germany, the UK and the US. PMI figures measure the prevailing trends in both the manufacturing and services sectors and are generally a leading indicator for the underlying health of the economy.

Elsewhere, minutes from recent central bank meetings in the US and Australia also released. In the US, the minutes from October's Fed meeting shouldn't offer up too many surprises with the decision to leave interest rates at the meeting expected. Meanwhile, in Australia, the Reserve Bank of Australia's (RBA) decision to resume its hiking cycle means the minutes will be closely watched to assess whether the central bank believes the 25 basis point hike earlier this month was a one-off, or a resumption in the hiking cycle.

Chart of the week

Many Americans locked in ultra-low mortgage rates in 2020 after central banks slashed rates during the early stages of the COVID-19 pandemic. Now, with mortgage rates at multi-year highs, people are reluctant to move as they would have to forfeit their attractive mortgage rate, which has resulted in record-low housing stock, which is partly to blame for the rebound in house prices and rents.



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Inflation is the Lesser of Two Evils. Click here.

Are Real Wages Rising? Click here.