The Weekly Snapshot

22 January 2024

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

It was a mixed week for global markets, with bond prices falling (yields rising) across the board, while some share markets were able to finish the week higher. The weakness in bonds was driven in part by some hawkish comments from a Federal Reserve (the Fed) official who tempered expectations of significant interest rate cuts this year.

In equities, US markets outperformed, with the S&P 500 finishing the week up 1.2%, closing at an all-time high, while the NASDAQ 100 was up more than 2%. European and Australasian markets didn't fare as well with most share markets finishing the week lower.

In fixed interest, the yield on the US 10-year government bond rose to a five-week high, finishing at 4.13%, while the New Zealand equivalent rose nearly 20 basis points, closing just above 4.7%.

What's happening in markets?

Despite a shortened week in the US there was plenty going on. It began with comments from US Federal Reserve governor Christopher Waller, who said on Tuesday that easing of monetary policy should not be "rushed" and when it begins it should be done "methodically and carefully". Historically, when the Fed has cut interest rates it has been quickly, but Waller added there is "no reason to move as quickly or cut as rapidly as in the past" (it should be noted that Waller is one of the more hawkish Federal Reserve members).

US economic data was relatively strong last week, highlighted by a 0.6% rise in retail sales in December, underscoring the momentum the US economy had during the back end of 2023. Meanwhile, consumer sentiment rose to its highest level since July 2021, with the preliminary reading of the University of Michigan survey jumping to 78.8, up from 69.7.

Elsewhere, Q4 earnings got underway, highlighted by a stronger-than-expected report from Goldman Sachs, which said that profit had increased by about 50% from a year ago, to just over US$2 billion on the back of more than $11 billion in revenue and an earnings per share (EPS) of $5.48, well ahead of forecasts of around $3.62 per share. The bank, which traditionally sees big profits from its investment banking and trading operations said a shift in focus to asset and wealth management was the main driver of the Q4 performance, with this division growing 23% from a year ago, while revenue from investment banking and trading fell over the same period.

Meanwhile, it wasn't such a good quarter for Morgan Stanley. Although it saw a small beat on revenue, it missed comfortably on EPS at $0.85 per share. Furthermore, the company announced it was hit with two one-off charges – a US$286 million relating to Federal Deposit Insurance Corp (FDIC) charges relating to the failure of regional banks early last year, and a $249 million legal charge that settled an investigation by the Security and Exchange Commission (SEC).

In New Zealand, the Q4 Quarterly Survey of Business Opinion (QSBO) showed the economy got a mild boost to end 2023, with business confidence rising to -10 (from -49), while activity measures also rose. Meanwhile, there were signs the labour market was starting to ease, largely driving by growing supply amid the recent surge in immigration.

In politics, former president Donald Trump comfortably won the first primary – the Iowa Caucus – on Monday, winning more than 50% of the vote. Next up is New Hampshire on 23 January, where former US Ambassador Nikki Haley is expected to mount a challenge to Trump after focusing most of her early campaigning in New Hampshire.

Finally, geopolitical tensions rose last week after the US launched a new round of strikes in Yemen targeting Houthi weapons that were readied for attack on more commercial shipping vessels.

What's on the calendar?

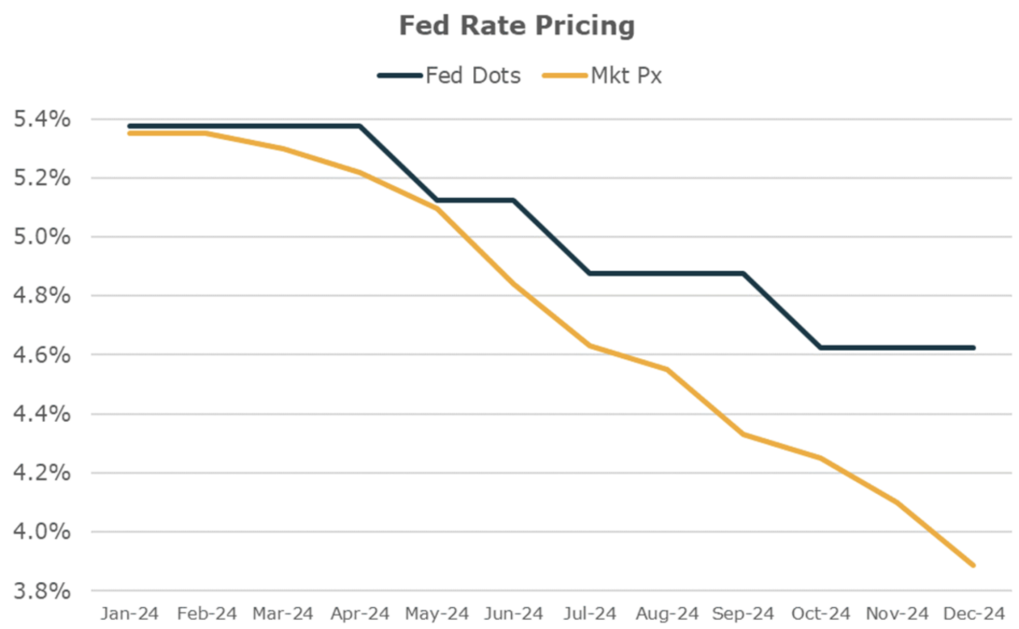
It's a busy week ahead with several central bank meetings. The Bank of Japan (BoJ), Bank of Canada (BoC) and European Central Bank (ECB) are all expected to leave policy rates unchanged, but as recent inflation data in many parts of the world appears to be slowing, investors will be looking for confirmation that central banks are done with rate-hikes.

In economic data, the big news this coming week will be the release of Q4 inflation data in New Zealand. The Reserve Bank of New Zealand (RBNZ), somewhat surprisingly, maintained a hawkish bias at its November meeting, reiterating its concerns about sticky inflation. Since that meeting, many global central banks are now suggesting that the next move in interest rates will be cuts, and after some softer-than-expected growth data in New Zealand, interest rate markets have also priced in rate-cuts for 2024. Should the data show a meaningful easing of pricing pressures, it should confirm interest rate market pricing, while if prices remain stubbornly high, it may give credence to the RBNZ maintaining its hawkish bias.

Overseas, there's a host of economic data. Firstly, several countries will release Purchasing Managers' Index (PMI) readings, which usually give a good snapshot of a country's economy, while US GDP and PCE price index figures will also be closely watched.

Chart of the week

After some dovish rhetoric and a shift lower in the Fed's dot plot (members' expectation of where interest rates will be moving forward) in December, interest rate markets have raced to price in significant cuts in 2024 – close to 100 basis points more than the dot plot.



Here's what we're reading

Charted: Office vacancies hit a new record high. Click here.

China Wants To Ditch The Dollar. Click here.