The Weekly Snapshot

25 September 2023

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

It was a tough week for financial markets with most equity and bond prices ending the week lower. For several equity markets, it was the third straight week of losses as rising bond yields (falling bond prices) weighed on sentiment. In the US, the S&P 500 and NASDAQ 100 ended the week down about 3%, while the Euro Stoxx fell about 2%.

Meanwhile, US bond yields rose sharply, with the two-year government bond yield, which is sensitive to the fed funds rate, hitting a 17-year high above 5.2%, while long-dated bond yields also rose to multi-year highs. The yield on the 10-year government bond traded to 4.5% before ending the week around 4.44%, up 10 basis points.

In New Zealand, some better-than-expected growth data saw the NZX 50 outperform most global share markets, finishing the week with a small gain, while the strong data saw bond yields much higher with the 10-year government bond yield rising nearly 20 basis points.

What's happening in markets?

The US Federal Reserve (the Fed) meeting took centre stage last week where, as expected, policymakers left the fed funds rate unchanged at the current range between 5.25% and 5.5%. Despite leaving interest rates on hold, the meeting was on the hawkish side, with the Committee raising the 'dot plot' projection for the fed funds rate in 2024. The dot plot indicated that the Committee still expected the fed funds rate to peak at 5.6%, suggesting the Fed will raise interest rates one more time this year, but only projected two interest rate cuts in 2024, which is two fewer than it forecasted in June. This sent a strong signal to markets that the Fed is committed to keeping interest rates 'higher for longer' to ensure inflation returns to target levels.

Adding to the hawkish tone was Fed Chair Jerome Powell's comments that inflation is not yet under control. "*We want to see convincing evidence really that we have reached the appropriate level, and we're seeing progress and we welcome that",* he said of inflation.

Elsewhere, several other central banks met last week. A summary of each includes:

- **The Bank of England** (BoE) left interest rates unchanged, but it was a tight decision with the nine-panel committee split 5-4. The pause came after 14 consecutive rate increases.
- **The Swiss National Bank** (SNB) left its policy rate unchanged but did not rule out further tightening. "*From today's perspective, it cannot be ruled out that a further tightening of monetary policy may become necessary to ensure price stability over the medium term",* the SNB said.
- **The Bank of Japan** (BoJ) maintained its ultra-loose monetary policy and some dovish guidance saw the yen weaken, falling for the third straight week versus the US dollar and the seventh week in eight.

In New Zealand, GDP data showed the economy grew at a faster pace than expected, and a revision higher of Q1 2023 figures meant the economy avoided a technical recession by the narrowest of margins. Nevertheless, the recent jump in immigration and cyclone rebuild may mask the figures, to some degree.

What's on the calendar?

After a busy week of central bank meetings, this week the focus is on economic data, headlined by Friday's release of the Personal Consumption Expenditures (PCE) Price Index, the Fed's preferred measure of inflation. It is expected year-on-year prices in August ticked up slightly to about 3.5%, while core PCE is expected to be around 4%. There's also a slew of housing data in the US, including Tuesday's Case-Shiller National Home Price Index and new home sales data, and Thursday's pending home sales figures.

Elsewhere, PMI updates, including the US Chicago PMI and China's Caixin services & manufacturing PMI will indicate how well the world's two largest economies are tracking, while in Europe, there are inflation figures from Germany, France and the eurozone bloc.

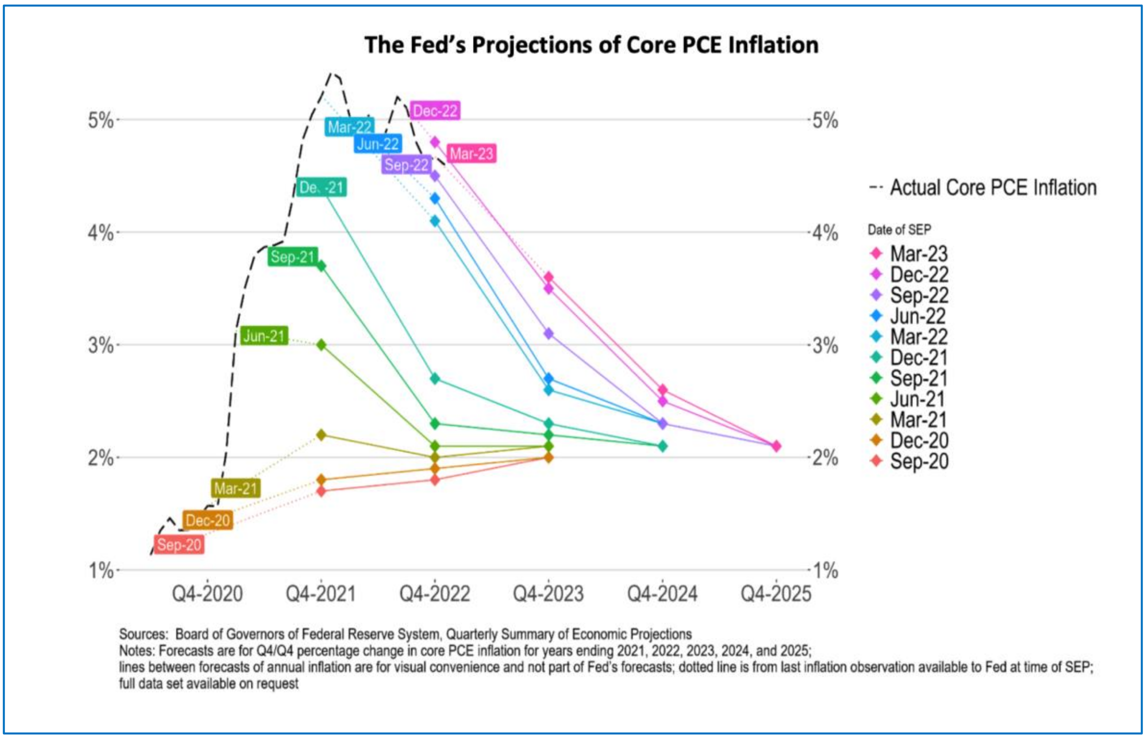
Rounding out a busy week of economic data is Australia's Monthly CPI Indicator on Wednesday and Thursday's retail sales, while in New Zealand the ANZ Business Confidence and Roy Morgan Consumer Confidence are released.

Finally, outside of economic data, Fed Chair Jerome Powell will host a town hall meeting on Thursday. However, it is unlikely to be a market-moving event, given the recent Fed meeting.

Chart of the week

Hot on the heels of the Fed meeting, and its dot plot update, below shows just how off the Fed has been in forecasting inflation since the economy emerged from the global pandemic.

In saying this, Fed Chair Jerome Powell has said in the past that dot plots are not the best indicator of future interest rate changes. "*The dots are not a great forecaster of future rate moves… it's just because it's so highly uncertain. There is no great forecaster of the future, so dots to be taken with a big, big grain of salt",* he said.



Here's what we're reading

How the UAW strike could have ripple effects across the economy. [Click here](#).

Full US government shutdown likely, could impact Fed. [Click here](#).

Regarding the chart above - Nobody Knows Anything, Dot Plot Edition. [Click here](#).