

# The Weekly Snapshot

26 June 2023

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

Most global equity markets ended lower last week as further interest rate hikes from some of the world's largest central banks continued, raising fears they would slowdown global growth.

In the US, the S&P 500 ended a run of five straight weekly gains to finish the week down 1.4%, while the NASDAQ 100 fell 1.3%. Meanwhile, in Europe, a larger-than-expected interest rate hike in the UK saw the FTSE 100 fall 2.4% and Continental European stocks also struggled with the Euro Stoxx 50 falling 2.8%.

It was much the same down under with the NZX 50 and ASX 200 both ending the week lower.

### What's happening in markets?

Financial markets were caught off guard on Thursday when the Bank of England (BoE) raised its key policy rate by 50 basis points – its 13th consecutive increase as policymakers struggle with persistently high inflation. The vote was 7-2 in favour of a 50 basis point hike, which took its policy rate to 5%. Prior to the meeting, interest rate markets were pricing in about a 70% chance of a 25 basis point hike.

***"There has been significant upside news in recent data that indicates more persistence in the inflation process, against the background of a tight labour market and continued resilience in demand,"*** the Committee said in its summary.

The surprise 50 basis point interest rate hike came a day after data showed UK inflation rose at an annual pace of 8.7%, unchanged from the month prior, but ahead of expectations. The pressing concern is that core inflation, which excludes volatile items like food, energy and alcohol, jumped to 7.1%, up from 6.8% and the highest rate since 1992.

Also in Europe, there were interest rate hikes in Switzerland, Norway and Turkey.

Investors in the US are also preparing for further interest rate hikes from the US Federal Reserve (the Fed), despite its recent pause. Speaking before the Senate Banking Committee on Thursday, Fed Chair Jerome Powell reiterated that the Committee plans to lift interest rates further, but at a "careful pace". He added that Fed members "overwhelmingly" think that more interest rate hikes are to come, but added that a slower pace would allow them to gather more information.

Outside of UK inflation figures, it was a relatively quiet week on the economic data front. In the US, housing data showed homebuilding projects rose in May by the most in about three decades, while permits for future construction also climbed, signs that the tide might be turning on a property market that has struggled over the past 12 months.

Finally, over the weekend, geopolitical tensions in Russia flared up as the Wagner Group fighters attempted to force a change atop Russia's military as they became frustrated with the handling of the invasion. However, about 24 hours after the challenge, the mercenary crew reversed their advance on Moscow.

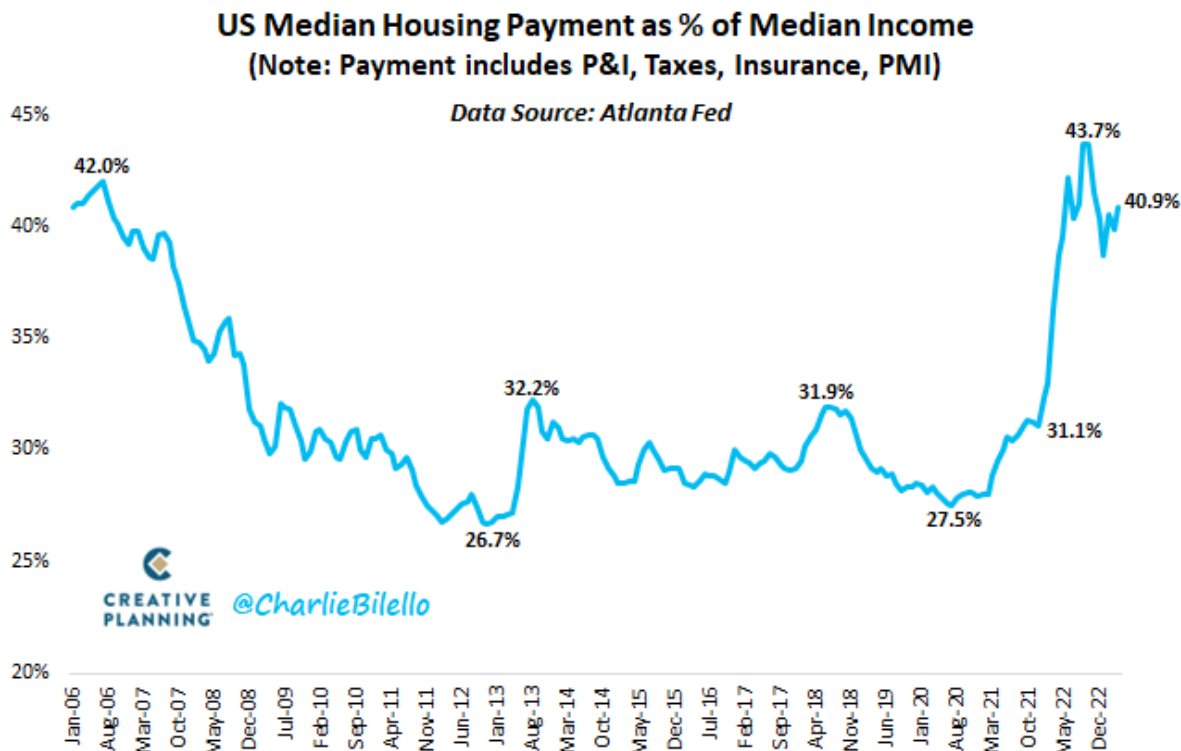
### What's on the calendar?

It's a relatively quiet week ahead with the focal point coming on Friday with the release of the US Personal Consumption Expenditures (PCE) Price Index, which is the Fed's preferred measure of inflation. After dropping from 5.2% last year, the index has plateaued in the 4.6 to 4.7% range, raising concerns that inflation may settle at levels well above the Fed's target, which could lead to more interest rate hikes than expected.

Elsewhere, consumer sentiment readings from the University of Michigan and the Conference Board are released, while consumer and business sentiment surveys in New Zealand are also on the calendar (ANZ Business Confidence and ANZ Roy Morgan Consumer Confidence).

## Chart of the week

This percent of household income required to own a house in the US is now above 40%. In the decade following the 2008/2009 financial crisis, this figure averaged about 30%, but a surge in borrowing costs, rising house prices and other costs associated with owning a home (property taxes and insurance) have seen housing affordability reach levels not seen since the 2004-2006 housing boom.



## Here's what we're reading

Work-from-home is becoming a perk offered by small tech firms as they try to lure talent from the giants - <https://www.vox.com/technology/2023/6/20/23762655/tech-perk-remote-work-freedom-airbnb-yelp>

Attitudes towards the Fed, the economy and the stock market are changing - <https://www.tker.co/p/market-economy-fed-attitudes-shifting>

A brief rundown on the situation in Russian: What is the Wagner group, and who is Yevgeny Prigozhin? - <https://www.cbsnews.com/news/wagner-group-who-is-yevgeny-prigozhin-russia-mercenary-private-military-company>

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