

The Weekly Snapshot

27 February 2023

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

It was another challenging week for global equity markets, as inflationary concerns remained front of mind. Minutes from the January meeting of the US Federal Reserve (the Fed), where it had lifted interest rates by 25 basis point, suggest its interest rate-setting committee remains committed to raising interest rates into restrictive territory. Meanwhile, a stronger-than-expected core PCE inflation reading added to worries that the Fed may keep interest rates higher for longer.

Against this backdrop the S&P 500 Index finished the week down 2.5%, its worst weekly performance since early December. It's worth noting however that the index is still 3.4% higher year-to-date. The tech-heavy Nasdaq 100 Index fell 3.0%.

At home the NZX 50 Index fared a bit better, but was still down 2.0%, as investors got to grips with another 50 basis point hike from the Reserve Bank of New Zealand (RBNZ). Across the Tasman the ASX 200 Index was down only 0.5%.

With inflation being a key focus, and an interest rate hike at home, it was little surprise that bond markets were on the back foot once again. The yield on the US 10-year government bond rose 13 basis points to finish the week at 3.95%, while that on the New Zealand equivalent rose 27 basis points to 4.63%. When bond yields rise, their prices fall.

What's happening in markets?

The main driver for the 'risk-off' move in markets was the reconsideration of the likely future path of US interest rates, with the market starting to consider a 50 basis point hike from the Fed at its March meeting. The peak in interest rates has returned to the 5.25-5.50% range, following more hawkish commentary from Fed members during the week, who signalled upside risks to their terminal rate expectations.

Adding to the 'hawkish' tone was the release of the minutes from the January meeting of the Fed, which was somewhat at odds with the more 'dovish' commentary offered by Fed Chair Jerome Powell at his post-meeting press conference. They showed that a "few" members of the committee had wanted a 50 basis point increase, which they felt would have shown even greater resolve to get inflation down.

The minutes also said **"Participants noted that inflation data received over the past three months showed a welcome reduction in the monthly pace of price increases but stressed that substantially more evidence of progress across a broader range of prices would be required to be confident that inflation was on a sustained downward path."**

At home, the big news came from the RBNZ, as it raised the Official Cash Rate (OCR) by a further 50 basis points, to 4.75%. Its committee agreed that the OCR still needed to increase, to ensure that inflation returns to within its target range over the medium term. While it acknowledged the uncertain outlook given the impact of Cyclone Gabrielle on economic activity, the recent weather events are only likely to make its job of curbing inflation even more challenging.

While documents showed the committee considered a record-equalling 0.75% hike, it settled on 0.50%. The central bank statement said:

"Cyclone Gabrielle and other recent severe weather events have had a devastating effect on the lives of many New Zealanders. It is too early to accurately assess the monetary policy implications of these weather events, given that the scale of destruction and economic disruption are only now becoming evident. The timing, size and the nature of funding the Government's fiscal response are also yet to be determined."

What's on the calendar

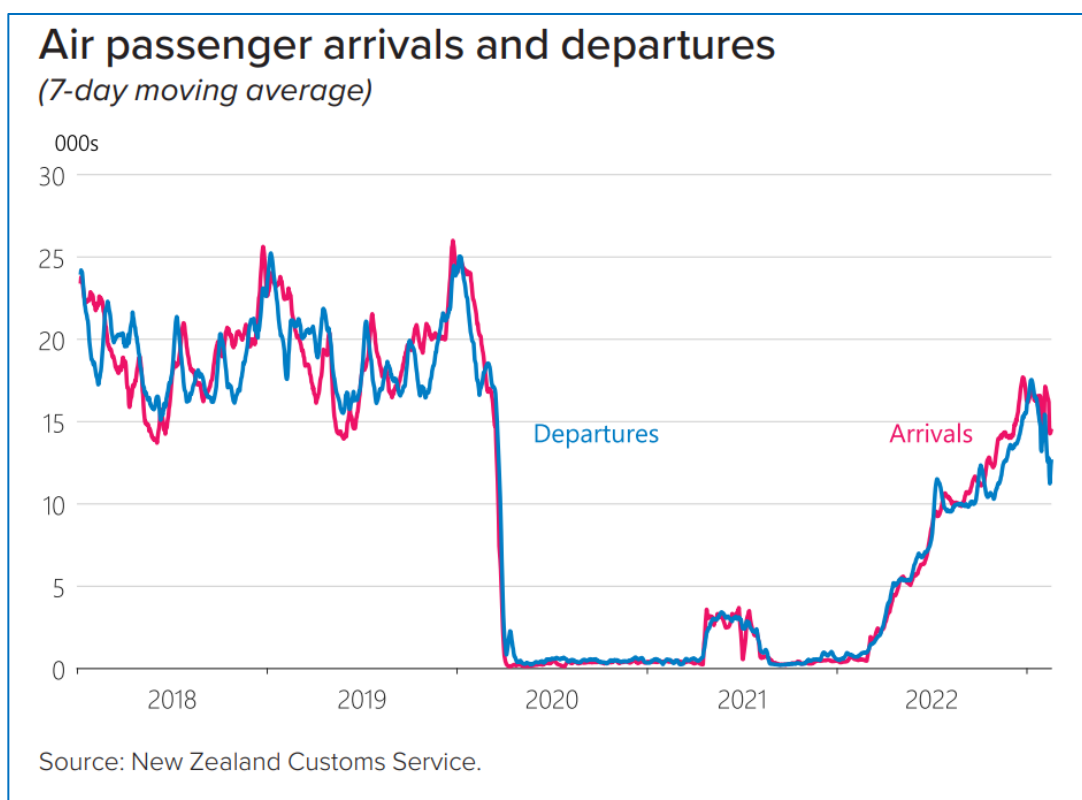
It's a fairly quiet week ahead, with the key focus likely to be Eurozone CPI (Consumer Price Index) on Thursday, and the US ISM (Institute of Supply Management) Services Index on Friday.

At its last reading, European annual inflation fell from 9.2% in December, to 8.6% in January. While the headline inflation rate is expected to continue to fall, of more interest to the European Central Bank will be core inflation – which in fact jumped to a record high in January of 5.3%.

Chart of the week

Since the New Zealand border was reopened over the latter half of 2022, the recovery in international tourism has been swift. This is consistent with the experience of other countries that unwound their pandemic restrictions earlier.

While still below their preCOVID-19 levels, the number of international visitors has increased rapidly.



Here's what we're reading

Venture Capital (VC) funding hits a 9-year low, another flow-on from higher interest rates as money becomes more expensive to borrow: <https://www.foxbusiness.com/economy/venture-fundraising-hits-nine-year-low>

Working From Home versus Return To Office: <https://ritholtz.com/2023/02/wfh-vs-rto/>

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