The Weekly Snapshot

27 May 2024

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

The S&P 500 Index in the US was flat over the week, while the tech-heavy Nasdaq Composite Index finished the week at a record high (up 1.4%) after chip maker Nvidia's quarterly result. However, the Dow Jones Industrial Average, an index comprising 30 of the largest companies in the US, finished down 2.3%, which suggested a lack of breadth to the recent AI (artificial intelligence)-fuelled rally.

While Australian shares were lower, the New Zealand market was up 0.7%, despite the Reserve Bank of New Zealand (RBNZ) leaving interest rates unchanged and suggesting they may need to stay higher for longer.

Bond yields ticked higher following the release of minutes from the latest US Federal Reserve meeting, which suggested committee members were concerned by a lack of progress on inflation, meaning they may not be able to lower interest rates anytime soon. The yield on the 10-year government bond rose 5 basis points. When bond yields rise, their prices fall.

The local bond market also saw higher yields following the RBNZ's decision, which saw yields on the equivalent 10-year government bond up 18 basis points, to 4.78%.

What's happening in markets?

On Wednesday, the RBNZ, as expected, left the Official Cash Rate (OCR) unchanged at 5.50%. The Committee struck a rather hawkish tone, reiterating its predominant focus on reining in inflation, despite signs the broader economy is slowing (unemployment rising, negative growth and retail sales slumping).

"Conditional on the central economic outlook, we expect that the OCR will need to remain at a restrictive level for longer than assumed in the February statement, in order for inflation to return to the 2 percent target midpoint", the RBNZ said in its monetary policy outlook.

The RBNZ lifted the neutral rate (the rate it expects the OCR to peak) by 10 basis points to 5.65%, implying a 60% chance of another interest rate hike.

In local economic data, retail sales rose 0.5% in the first quarter, the first positive reading since 2021, but down 2.4% on an annual basis.

Elsewhere, minutes from two recent central bank meetings showed that both discussed further rate hikes, despite broad consensus that interest rates have likely peaked. In Australia, minutes from the May Reserve Bank of Australia (RBA) meeting showed that policymakers said the risk of prolonged inflation had increased, and the board agreed it was ***"difficult to either rule in or rule out future changes in the cash rate"***.

Meanwhile, minutes from the 30 April/1 May US Federal Reserve (the Fed) meeting showed that officials were growing increasingly concerned about sticky inflation. ***"Various participants mentioned a willingness to tighten policy further should risks to inflation materialize in a way that such an action became appropriate"***, the minutes showed.

In the UK, a topside surprise to inflation cut the odds of a June interest rate cut with consumer prices rising 2.3% on an annual basis, above the forecasted 2.1%. The topside surprise was largely driven by services inflation, while petrol prices also rose. Although the rate fell to its lowest level in almost three years, the odds of a June cut fell below 20%, down from 50% prior to the data release. In other news, the current Prime Minister, Rishi Sunak, called an early general election, for 4 July.

Finally, high-flying Nvidia reported quarterly earnings on Wednesday that beat expectations for sales and revenue, which saw its share price rise above $1,000 for the first time. The chipmaker reported net income for the quarter of US$14.88 billion, compared with $2.04 billion a year ago. With its share price reaching lofty levels, the company announced a 10 for 1 stock split, which will begin trading on 10 June.

What's on the calendar?

The Fed's preferred measure of inflation is due this week. The last reading of the core annual PCE (Personal Consumption Expenditures) inflation, for March, was 2.8%, versus expectations of 2.6%, therefore coming in higher than expected and highlighting the stubborn nature of price growth. With the key focus of investors being on how the Fed is tracking in its fight against inflation, this month's reading will no doubt be closely watched. Also in the US we have the first revision to GDP (Gross Domestic Product) and consumer confidence

Closer to home, Australia will release its monthly CPI (Consumer Price Index) indicator, a monthly inflation indicator compiled by the Australian Bureau of Statistics. This is seen as being a leading indicator of the quarterly CPI number. With minutes from the recent RBA meeting highlighting the rate-setting committee's concerns around elevated inflation, investors will look to the monthly reading to gauge what this could mean for interest rate policy going forward.

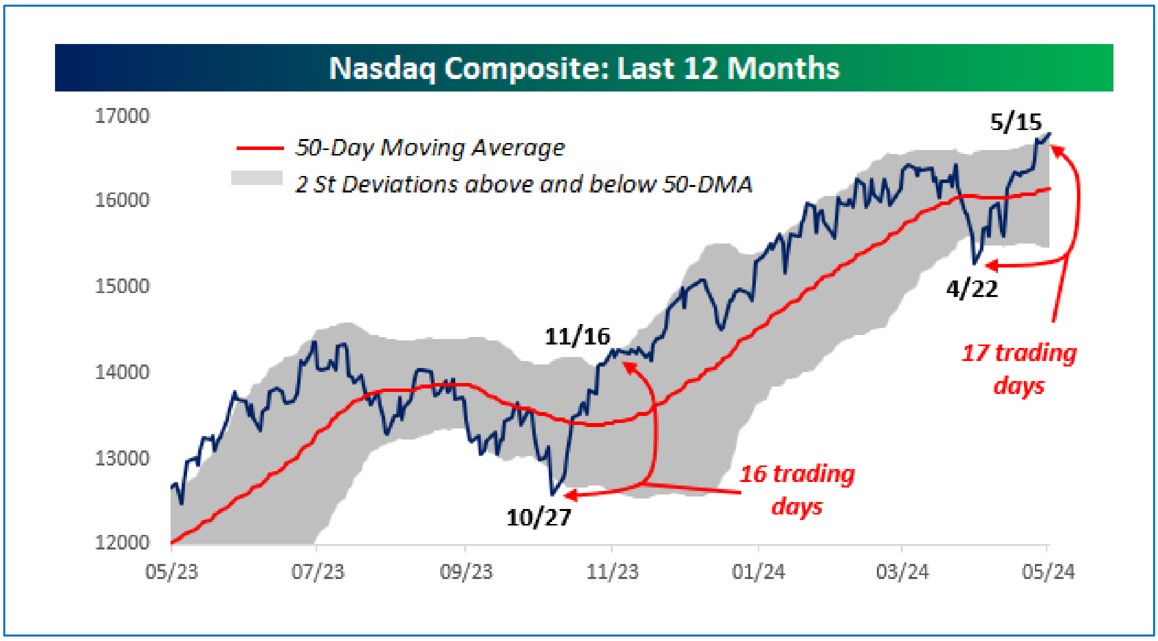
In New Zealand, we have the ANZ Business Outlook survey in terms of delivering economic data points, while the highlight of the week will be the 2024 Budget, where Nicola Willis will deliver her first budget. The focus will likely be on the tax cuts the National Party has promised and exactly how they plan to pay for them. As well as the Budget, the Treasury will publish its latest Budget Economic and Fiscal Update (BEFU), which includes its economic outlooks and forecasts.

Chart of the week

Source: Bespoke Investment Group

Even with volatility at 52-week lows (as measured by the VIX Index), the Nasdaq Composite Index, which this week hit a record high, has just done something it has only done 15 times since the inception of the index in 1971 – shifting from extreme oversold to extreme overbought levels in 20 trading days or less. This is defined as 2+ standard deviations either side of its 50-day moving average.

If history is anything to go by, the average 12-month return after a move from oversold to overbought is more than 15%, according to Bespoke Investment Group.



Here's what we're reading

What Is the Consumer Doing…? Click here.

Maybe Baby Boomers Won't Tank the Stock Market by Cashing Out. Click here.