The Weekly Snapshot

27 November 2023

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

Global equity markets continued to eek out gains, with most of the major markets finishing last week in positive territory. The S&P 500 Index in the US delivered a 1.0% gain, taking its month-to-date return to 8.7%. Meanwhile, technology stocks outperformed, with the Nasdaq 100 Index extending its gains by a further 0.9%, leaving its month-to-date gains comfortably in double digits, up 10.9%.

Elsewhere the German and Japanese markets were also relatively strong performers, gaining 0.7% and 0.3% respectively. In fact, in Japan, the Nikkei 225 Index hit a 33-year high. The country's equity market continues to do well thanks to a weak yen and recent strong company announcements. Equity markets in the UK and Australia were weaker however, down 0.2% and 0.1% respectively, the latter suffering from the prospect of a continuation of tight monetary policy. At home, the NZX 50 Index was up 0.3%.

Meanwhile, bond markets had a mixed week. The yield on the US 10-year government bond finished the week 3 basis points higher, at 4.47%. Bond yields (which move in the opposite direction to bond prices) initially fell, to a two-month low of 4.36%, however they later reversed direction given the release of minutes from the last meeting of the US Federal Reserve, which suggested investors should not expect rate cuts anytime soon. European bond yields were also higher this week, on some stronger than expected economic data.

What's happening in markets?

Last Tuesday, the Federal Reserve signalled in minutes from its last meeting (on 31 Oct/1 Nov) that officials had little appetite for cutting rates, given that inflation remains well above its target. It came as little surprise, given that in his post meeting press conference Jerome Powell had said "*The fact is, the Committee is not thinking about rate cuts right now at all*". Despite this, investors continue to believe the Fed is done with raising rates and, according to fed funds futures, are optimistic the central bank will not raise rates at its upcoming December meeting.

In company news, chipmaker Nvidia reported its latest quarterly results on Tuesday. The semiconductor producer beat analysts' estimates on revenue (US$18.1bn vs US$16.1bn estimated). Unlike Nvidia's Q1 earnings in May, which catapulted the AI (artificial intelligence) theme into prominence, its Q3 results had a subdued impact on markets, with the company's share price down 3.3% over the week as it warned that export restrictions on China would likely weigh on its Q4 results.

In other economic news, US weekly initial jobless claims came in at 209,000, below consensus of 227,000 and last week's 231,000. It's the lowest reading since mid-October. The better-than-expected reading highlights the US labour market is cooling, but only slowly.

A four-day ceasefire got underway in the Israel/Hamas conflict over the weekend. The pause has been agreed to allow for the release of Israeli hostages and Palestinian prisoners and to allow humanitarian aid into Gaza. Markets did not really react to the news, as the agreement does not mean hostilities are over, but it's an important development nonetheless.

The price of oil see-sawed during the week. Having fallen to as low as US$72 a barrel (West Texas Crude) in the previous week, it headed higher again ahead of a planned meeting of the OPEC+ countries, where members were expected to consider extending production cuts. However, prices later reversed course, as the meeting was postponed for 5 days amid reports that member countries had differing views on production levels. The price of oil finished the week at US$75.

Some five weeks after the election and three weeks after the special votes were announced, New Zealand has a government, with the National Party, ACT and New Zealand First finding some common ground. In terms of its relevance to financial markets, the key positions are Chris Luxon as Prime Minister and Nicola Willis as Finance Minister. One key change is to tax policy, where Winston Peters managed to put the kibosh on allowing foreign buyers back into the housing market. According to Chris Luxon however, National's proposed tax package will "*continue to be funded through a combination of spending reprioritisation and additional revenue measures*".

Finally, in Australia, the Reserve Bank of Australia is braced for a challenging year ahead. Its new governor, Michele Bullock, gave a speech where she indicated interest rates are likely to remain elevated for a while, even if they don't rise further. She said the bank seeks to bring inflation back to its target 2-3% level, while keeping as many people as possible in work. Inflation took nine months to fall from 8% to 5.5%, but the bank expects it will take another two years for price increases to drop below 3%, given that the remaining inflation challenge it's dealing with is "*increasingly homegrown and demand driven*".

What's on the calendar?

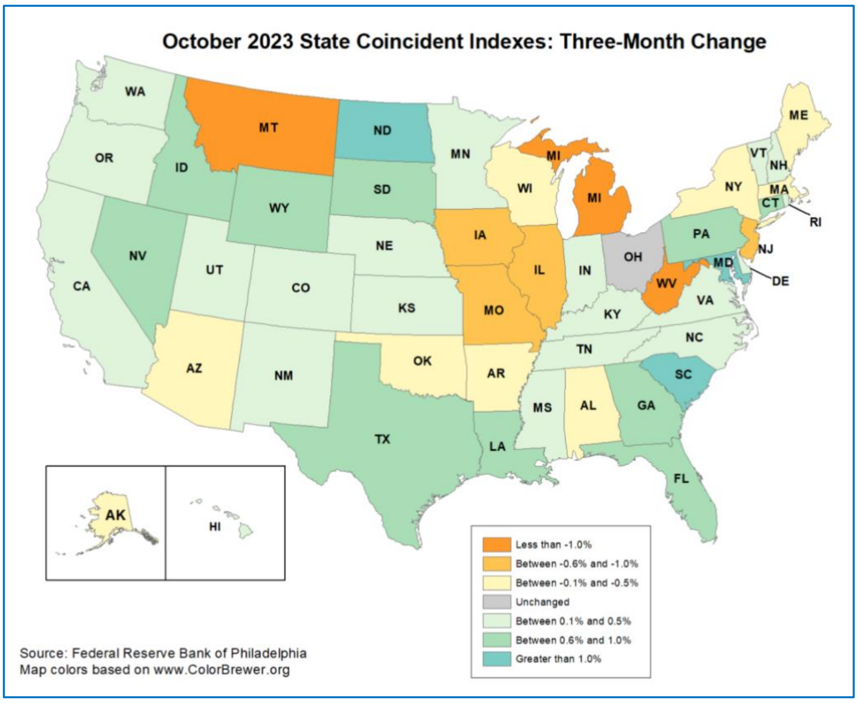
It's a relatively quiet week ahead. The key focuses in the US will be on consumer confidence data on Tuesday, the Fed's Beige Book on Wednesday, and the Fed's preferred measure of inflation – the core PCE (Personal Consumption Expenditures) index – on Thursday. Most expect the downward progress on core inflation to continue, with core PCE prices rising 0.2%, which would be softer than the 0.3% reading in September (which would take the annual gain down to 3.5%, from 3.7% in September).

No doubt markets will also be watching the outcome of the OPEC+ meeting (and its impact on oil prices), where it's expected member countries will agree to extend production cuts into the new year.

Also this week is the Reserve Bank of New Zealand Monetary Policy Statement and OCR, where the central bank is widely expected to leave interest rates unchanged at 5.50%.

Chart of the week

A slowing US economy, State by State. A coincident index is a single summary statistic that tracks the current state of the economy. The index is computed from a number of data series that move systematically with overall economic conditions. A rise in the index indicates an expansion of economic activity and a decline in the index indicates a contraction in economic activity. Each of the regional indexes is computed using data on employment, real earnings, the unemployment rate and average weekly hours worked in manufacturing. See 'Here's what we're reading' for the accompanying article.



Here's what we're reading

Slowing US economy, State by State (article to accompany chart above). Click here.

Which is Worse: Inflation or Unemployment? Click here.

Everything is too expensive. Click here.