The Weekly Snapshot

29 April 2024

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

It was an up and down week on the back of mixed economic data and news flow. While equity markets were weak following disappointing US first quarter GDP (Gross Domestic Product) data and stronger-than-expected inflation numbers, they got a boost from some strong earnings announcements.

It allowed the S&P 500 Index to break its three-week losing streak, which ended the week up 2.7%. The NASDAQ 100 Index had its first positive week in five, as it delivered a gain of 4.0%, thanks to some good news from companies in the technology sector. Markets in most of the other major regions took their direction from the US market, but generally were unable to reflect their strong gains. The exception being the UK market, where the FTSE 100 Index rose to a new record high amid hopes of interest rate cuts.

The local NZX 50 Index and the Australian ASX 200 Index delivered somewhat more muted returns, with both up 0.1%.

Bonds were rangebound, with the yield on the US 10-year government bond up 4 basis points to 4.67%, while in New Zealand, the yield on the equivalent bond rose 13 basis points, as investors began to accept the idea that rates could stay higher for longer given the recent strong inflation data.

What's happening in markets?

First off, in central bank news, as widely expected the Bank of Japan left interest rates unchanged on Friday, keeping its benchmark policy rate at 0-0.1%. It follows last month's decision to abolish its negative interest rate and yield curve control policies. The bank's decision this week followed inflation data for Tokyo, which showed that inflation in April was 1.8%, down from 2.6% the previous month. Tokyo inflation data is widely considered a leading indicator of nationwide trends.

In the US, attention fell on growth and price data. First quarter US GDP showed the economy grew at an annualised rate of 1.6%, well below the 2.4% rate expected by many economists, and the 3.4% reading in the final quarter of last year. The decline in the rate of growth was most noticeable in the consumer spending component. Investors are worried the weak number may set the tone for the rest of 2024.

At the same time, a closely watched measure of inflation remains elevated, raising questions about the Federal Reserve's (the Fed) next step in its fight to bring down price growth. The core personal consumption expenditures (PCE) price index – the bank's preferred measure of inflation – rose 2.8% in the year to end March 2024, unchanged from the previous month but slightly higher than expected. It suggests that pricing pressures remain elevated.

Markets were on the back foot following the two readings. The general view has been that the Fed was winning in its battle against inflation, thereby raising the prospect of the economy achieving a 'soft landing' – a scenario where inflation falls back to target level without dropping the economy into a recession. However, the recent strong data is certainly testing the market's confidence.

Offering markets an offset were better earnings announcements from a number of technology companies. A standout was Alphabet (owner of Google), which saw its shares up over 11% over the week. Alphabet's earnings exceeded expectations and the company announced its first ever dividend and a US$70bn share buyback. The company's revenue rose 15% from a year earlier, its fastest rate of growth since early 2022.

What's on the calendar?

The key focus this week will be the outcome of the Fed's two-day meeting on Wednesday (Thursday New Zealand time), and the subsequent press conference where Jerome Powell will update markets on the central bank's latest views. No changes are expected, but investors will be looking for a better steer on where to from here. Also in the US we'll see April payrolls and wage growth numbers.

Elsewhere we'll see worldwide manufacturing PMI (Purchasing Manager Indexes), including in China, where last month's reading surprised to the upside. In Europe we'll see GDP and inflation figures, which could strengthen the odds for expected rate cuts from the European Central Bank in June.

Meanwhile, earnings releases will continue to drive sentiment, with both Amazon and Apple due to report.

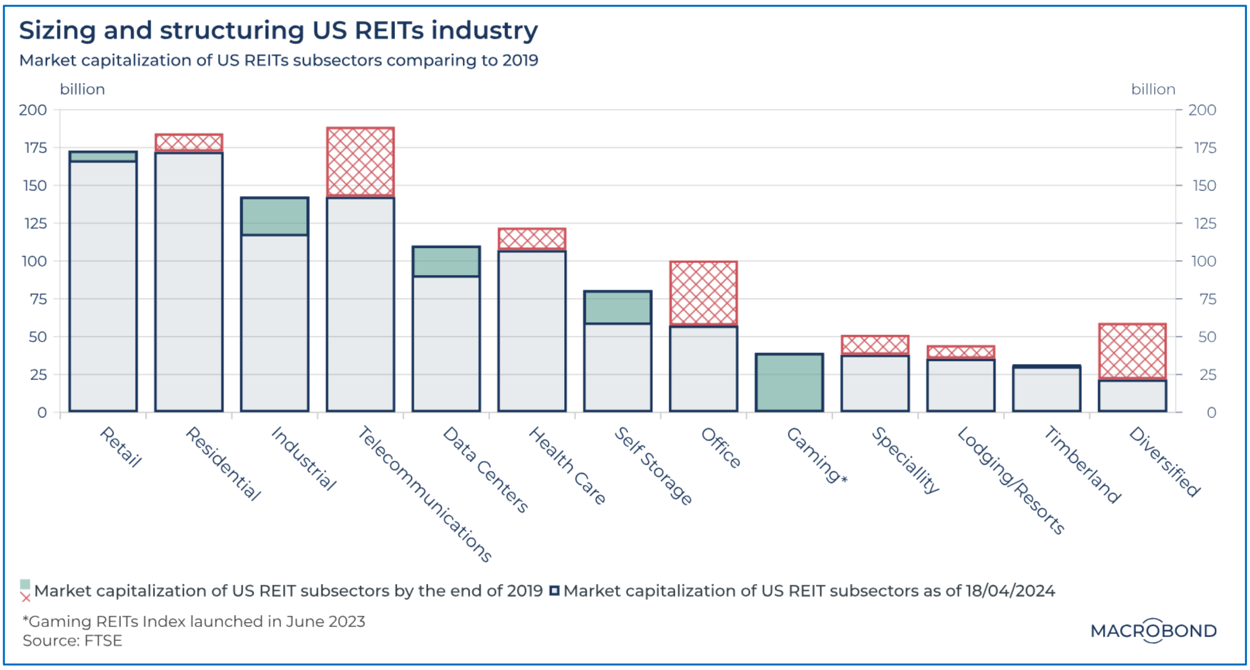
Chart of the week

Source: Macrobond

The US REITs (listed property sector) industry has experienced significant shifts since the pandemic, with the office sector seeing a marked decline due to ongoing challenges in persuading employees to return to physical office spaces. The telecommunications sector also shrank.

Conversely, the industrials and self-storage sectors have grown, signalling a rebound in these areas of the economy following the pandemic.

The data center sector has also grown considerably, likely driven by the surge in demand for AI-related technologies. These trends reflect broader economic shifts towards digital and storage solutions.



Here's what we're reading

Reuters:
Where Biden and Trump stand on key issues. Click here.

John Mauldin:
Powering the AI (artificial intelligence). Click here.