The Weekly Snapshot

29 May 2023

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

A number of clouds hung over markets last week, most notably no resolution to the US debt ceiling crisis. However, over the weekend, the White House and Republicans announced they had reached a tentative deal to avoid a US debt default.

Global share markets were generally lower, given the risk-off mood. That being said, US shares were modestly higher, with the S&P 500 Index up 0.3% over the week. Technology stocks did exceptionally well though, on the back of a strong quarterly result from chip-maker Nvidia, which saw its shares up almost 25% on the day. This allowed the NASDAQ 100 Index to finish the week up 3.6%.

New Zealand markets saw plenty of action following the Reserve Bank of New Zealand (RBNZ) meeting during the week. The kiwi dollar fell over 3% against the US dollar on suggestions that local interest rates may have peaked. While 10-year bond yields fell following the news (meaning their prices rose), they later gave back these gains to finish the week unchanged. And while the local share market also initially rallied, it too fell following results from Mainfreight and Fisher & Paykel Healthcare, with both companies' managements highlighting more challenging times ahead. The NZX 50 Index fell 2.2%.

What's happening in markets?

The focus in New Zealand last week was on Wednesday's RBNZ meeting, where the central bank raised the Official Cash Rate (OCR) by 0.25%, to 5.50%. Somewhat surprisingly it signalled that this could be the end of the current rate hiking cycle here in New Zealand. It's the 12th consecutive move higher in interest rates, which has seen the OCR rise from 0.25% in October 2021 to its current level.

There was no clear consensus view heading into the meeting. Most expected a 0.25% increase, but others were moving towards a 0.50% hike, given the increase in government spending announced in the previous week's Budget and a recent rebound in net immigration – both of which it was felt could add to inflationary pressures.

While the size of the move was always going to be important, investors were more interested in the forward track of interest rates. In this regard the central bank stuck to its previous forecast of a peak in the OCR of 5.50%. Markets therefore took this to mean interest rates have now reached their terminal level. The RBNZ forecasts interest rate cuts from the third quarter of 2024 onwards, which means interest rates will stay high, and on hold, for some time.

In the US, the ongoing debt ceiling saga continued. Urgent talks to raise the US debt ceiling level appeared to move closer as the week progressed and, over the weekend, President Biden and House Majority Leader, Kevin McCarty, announced they had come to an "agreement in principle".

While this was happening, investors have been sitting on the sidelines and markets have generally been lower. Credit rating agency, Fitch, put the US AAA credit rating on Watch Negative, reflecting the slow progress politicians had made in reaching a resolution to raise or suspend the debt ceiling.

There was also plenty of economic data out last week to keep investors on their toes. In the US we saw Q1 US GDP (Gross Domestic Product) revised up to 1.3% for the year to 31 March 2023. The modest revision however does not change the narrative of the economy at present, with most economic data suggesting the economy continues to grow, albeit at a slower pace.

Meanwhile, in the UK, inflation dropped markedly, down from an annual rate of 10.1% in March, to 8.7% in April. It takes inflation below the significant 10% level, but while it was a big fall, it was not as big as markets had been expecting!

Elsewhere, in Europe, Germany revised down its GDP figure for Q1 to -0.3. It meant two back-to-back quarters of negative growth, which suggests its economy entered a recession. Despite this, there was talk from European Central Bank (ECB) members that more needed to be done to bring inflation across the region down, and so markets increased the likelihood of further rate hikes from the central bank.

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What's on the calendar

In the US, debt ceiling news will no doubt continue to dominate the headlines, with the tentative deal still to be put down on paper and voted on. The package will need to win enough votes in the Republican-controlled House and the Democratic-held Senate in order to raise the debt ceiling in time to meet a 5 June deadline.

In terms of economic data, the focus this week will be on European inflation data and manufacturing PMIs (Purchasing Managers Indices), while in the US all eyes will be on Friday's non-farm payrolls data.

Chart of the week

What a comeback. The NASDAQ 100 Index is up 33% from its October lows, and is at its highest level since April 2022. It's now only 15% off its highs.

Here's what we're reading

The unemployment rate has actually *fallen* since the Fed went from 0% to 5% with rates.
https://awealthofcommonsense.com/2023/05/some-things-the-fed-doesnt-control/

What happens if the US defaults on its debt?
https://ofdollarsanddata.com/what-happens-if-the-us-defaults-on-its-debt/