The Weekly Snapshot

30 October 2023

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

Financial markets continued to be impacted by nervousness amongst investors against the backdrop of a disappointing third-quarter earnings season in the US and the ongoing Israel-Hamas conflict, this despite some much stronger-than-expected economic data.

The S&P 500 Index fell into correction territory (a more than 10% drop from its most recent July peak), as companies such as Chevron, ExxonMobil, Ford Motors and JPMorgan Chase all came up short of expectations, with the US benchmark index falling 2.5% over the week. Technology companies were not immune either, with mixed earnings reports from Alphabet (the parent company of Google) and Meta Platforms sending the NASDAQ 100 Index down 2.6%.

Other overseas markets followed suit, but with most registering smaller declines. The FTSE 100 Index was down 1.5%, Germany's DAX Index fell 0.8% and Japan's Nikkei 225 Index was down 1.0%. The local market took its lead from the US, with the NZX 50 Index down 2.3%.

Bond yields were volatile too. Having popped through the 5.00% level the previous week, the yield on the US 10-year government bond traded in a wide range, between 4.81% and 5.02%, finishing the week 8 basis points lower at 4.84%. The yield on the equivalent New Zealand government bond fell 6 basis points to 5.49%.

What's happening in markets?

US GDP showed that the US economy grew at an annual rate of 4.9% in the third quarter, its fastest pace since late 2021, and a big jump from the second quarter, where GDP growth was 2.1%. The sharp increase came largely from higher consumer spending. Despite the strong number suggesting that US monetary policy will need to stay tighter for longer, markets did not change its view on this week's Federal Reserve (the Fed) meeting – where it's expected it will keep rates on hold at current levels.

Meanwhile, PMIs (Purchasing Managers Indexes – an indicator of current and future business conditions) were released in Europe and the US. European readings fell, and were generally weaker than expected, which suggests the region is in contractionary territory. Whereas in the US they were stronger than expected, with both the manufacturing and services readings now above the all-important 50 mark – which suggests these have moved into slight expansionary territory. It highlights the current differences in the US and European economies – one continues to show resilience, while the other edges lower.

In terms of central bank activity, the European Central Bank left interest rates unchanged at 4%, the first time it has kept its policy rate unchanged in more than a year and ending a round of 10 consecutive increases. Its sentiment was largely unchanged, as it noted that interest rates are at levels that, if maintained for a sufficiently long duration, will bring inflation back to its 2% medium-term target.

Elsewhere, the Bank of Canada left interest rates on hold, the second time in a row, as it suggested that rates would remain high for some time to come.

In Australia, inflation was stronger than expected in the third quarter. Data from the Australian Bureau of Statistics on Wednesday showed the Consumer Price Index (CPI) rose 1.2% in the third quarter, above expectations of a 1.1% increase, and up from a 0.8% increase in the previous quarter. The annual pace of inflation slowed to 5.4%, down from 6.0%, but was also above expectations. The surprise increase came amid broad-based and stubborn cost pressures – and adds greatly to the likelihood of another rate hike from the Reserve Bank of Australia.

Meanwhile, markets generally ignored the core PCE inflation number in the US (the Fed's preferred measure), which showed that prices increased 3.7% over the year to end September – its lowest annual increase since May 2021, but still above the Fed's 2% target.

What's on the calendar?

It's another busy week, with the US Fed meeting taking centre stage on Wednesday (Thursday in New Zealand). As already mentioned, expectations are that it will leave rates unchanged, this despite the recent strength of economic data within the region.

In terms of economic data, other highlights will be US consumer confidence and the ISM (Institute of Supply Management) services and manufacturing surveys. Rounding out the week will be the all-important US nonfarm payrolls data.

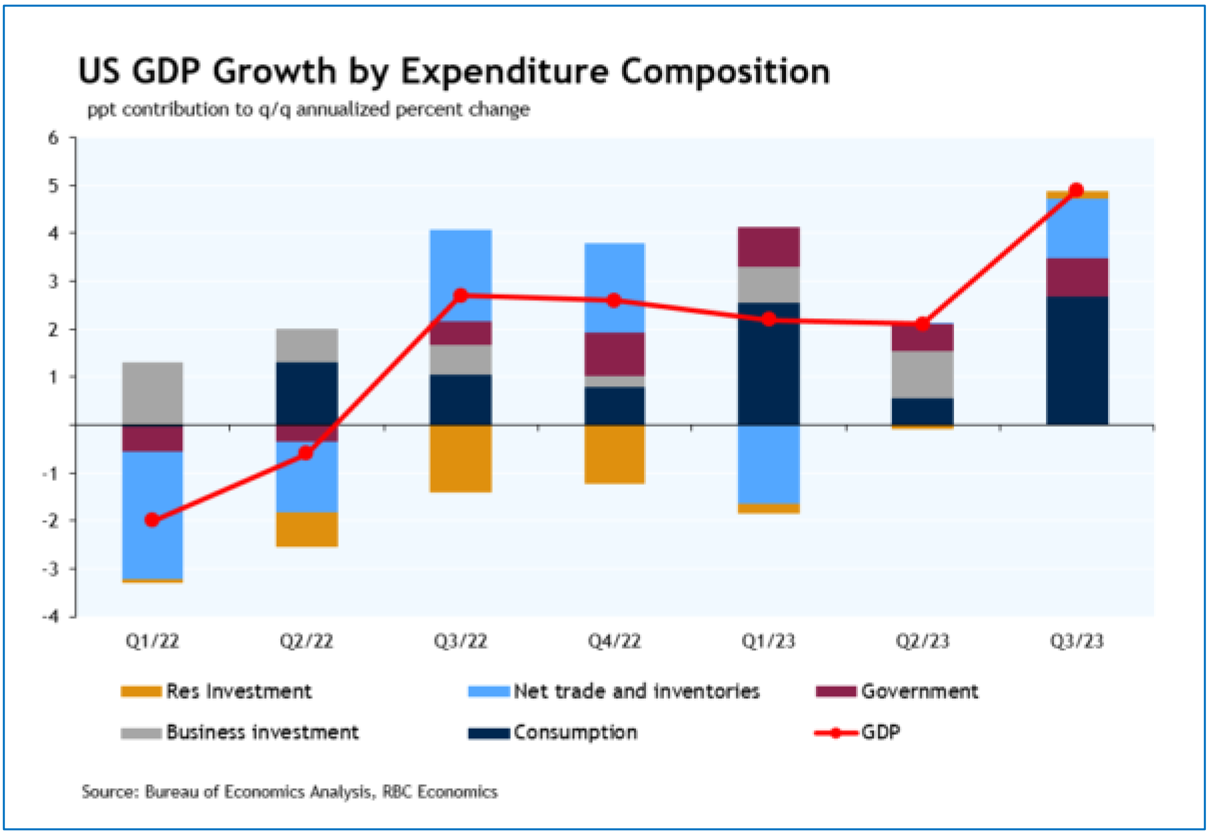
In company news, a key focus will be on Apple's result on Thursday, in the midst of an earnings season with many disappointments for some growth and technology giants.

Finally, the geopolitical unrest in the Middle East will remain on the radar with the risk to financial markets being if the conflict spills over bringing other countries into the war.

Chart of the week

As mentioned above, third quarter US GDP was exceptionally strong, accelerating to an annualised rate of 4.9%. It was also the fifth consecutive increase, and the largest since Q4 2021. Consumer spending remained very strong, rising 4.0% in the quarter.

A jump in the volatile inventory component accounted for about a quarter of the overall GDP gain, and residential investment surprised to the upside too, posting an increase after nine quarterly declines.



Here's what we're reading

Jay Powell's Greenspan moment. Click here.

Americans have never been wealthier and no one is happy. Click here.