The Weekly Snapshot

6 May 2024

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

It was an up and down week for global share markets, which ebbed and flowed with a myriad of economic data and a US Federal Reserve (the Fed) meeting. By the end of the week, most global share markets were higher, thanks in part to a strong Friday session. In the US, the S&P 500 rose 0.6%, while the NADSAQ 100 rose about 1%, and in Europe, the UK's FTSE 100 rose to a new all-time high, finishing the week up 0.9%.

Down under, the NZX 50 and ASX 200 both finished the week in the green. Lower bond yields supported the interest rate sensitive NZX 50, while Australian equities were supported by the continuing rise of iron ore prices, which have gained nearly 20% from their early-April lows.

What's happening in markets?

In a widely expected move, the Fed left interest rates steady at 5.25%-5.50%, indicating that it "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%". Many investors had been hoping for the Fed to cut rates soon, however the annual rate of inflation remains stubbornly high, and well above its 2% target level.

In his subsequent press conference, Jerome Powell, Chairman of the Fed, said that it was unlikely that the next interest rate move will be a rate hike, rather that officials are thinking of how much longer they should maintain the current rate. This put to rest some investors concerns that the Fed is losing control of sticky inflation, and fears that the central banks might consider a move higher in interest rates to get on top of pricing pressures.

In economic data, the closely watched US nonfarm payrolls report provided some relief for policymakers with signs the labour market was starting to cool. The economy added 175,000 jobs in April, below consensus, while the unemployment rate ticked higher to 3.9%. In more good news, there were signs wage inflation was starting to moderate with average hourly earnings rising 0.2% from the prior month, which was below forecasts.

Meanwhile, it was a busy week in New Zealand, with a raft of economic data highlighting the challenging situation facing businesses and households. April's ANZ Business Outlook survey showed a clear weakening in activity and profitability for businesses as cost pressures continued to bite. Business confidence fell 8 points to +15, while expected own activity fell 9 points to +14, and past own activity dropped 13 points to -20.

There were also various reports highlighting the struggles faced by households. It included KiwiSaver early withdrawals, which reached an all-time high in March, and amounted to almost $173m. It's the most money withdrawn in a single month. While most withdrawals were in the first home category, almost $29.3m was in the financial hardship category.

Finally, the New Zealand unemployment rate rose to 4.3% in the three months to end March, up from 4% in the previous quarter. It's the highest rate of unemployment since mid-2021 and was broadly in line with market and central bank expectations. However, wage growth remained robust, which remains a concern for the central bank.

Rounding out a busy week was more quarterly earnings. eCommerce giant, Amazon, reported better-than-expected revenues and earnings for the first quarter, driven by growth in advertising and cloud computing. Its shares were up 3.7% over the week. Meanwhile, shares of Apple rose 8.3% over the week after it reported a small decline in revenue, but it was ahead of forecasts. The company also announced a US$110 billion share repurchase – the largest in the company's history. Some of the other prominent information technology companies were lower, including chipmaker Advanced Micro Devices (-4.3%) and Super Micro Computer (-8.7%) as they reported earnings in line and below consensus estimates, respectively.

What's on the calendar?

Following on the heels of the Federal Reserve, the Reserve Bank of Australia (RBA) meets this week where it is expected to leave interest rates unchanged. Economic data has been mixed of late, but an upside surprise to March's inflation data has ruled out any chance of a cut and could see the central bank adopt a somewhat hawkish bias.

Meanwhile, the Bank of England (BoE) meets this week. It will have to juggle the sharp drop in inflation (steering investors towards possible cuts) with ongoing labour market strength and an economy that, after entering a recession, appears to have bottomed. Interest rate markets are currently pricing in a rate cut for September, with the possibility of another this year around the 50-50 mark.

It's a relatively quiet week on the economic data calendar with US Michigan Consumer Sentiment and Inflation Expectations, Chinese inflation, and UK GDP figures ones to watch.

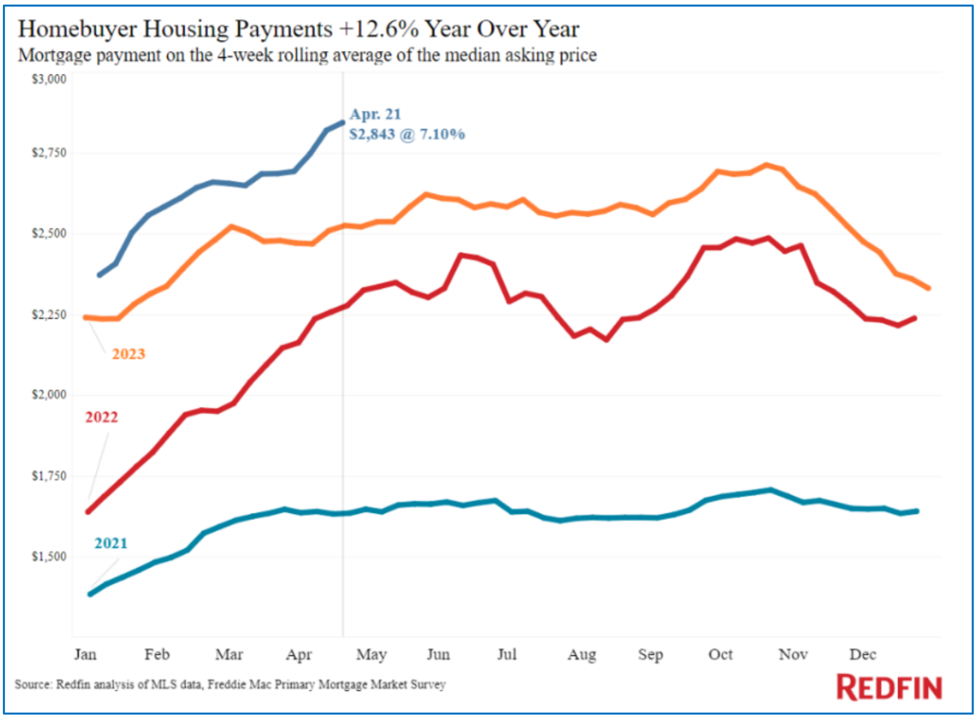
Finally, in earnings, we will see quarterly updates from Walt Disney, BP, Uber and Shopify to name a few.

Chart of the week

According to Redfin, a residential real estate brokerage based in Seattle, the monthly mortgage payment needed to buy the median priced home for sale in the US has increased 92% over the last 4 years (from $1,480 to a record $2,840). Needless to say, incomes haven't grown by nearly that much, making the average house unaffordable to the average American.

38% of US homeowners surveyed said they didn't think they could afford to buy the home they are living in today at current prices/mortgage rates, while an additional 20% said they "might not" be able to afford their current home.

Why? Most homeowners purchased their homes when prices and mortgage rates were much lower, and current prices/mortgage rates simply don't stack up. Last week, the 30-year mortgage rate in the US moved up to 7.17%, its highest level since last November. 3 years ago, the rate was below 3%.



Here's what we're reading

Why the FED Should Be Already Cutting. Click here.

The walls of Apple's garden are tumbling down. Click here.