The Weekly Snapshot

6 November 2023

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

Share markets rallied last week as optimism that the US Federal Reserve (the Fed) is done lifting interest rates grew, while a sharp decline in bond yields also boosted equity market gains. After two weekly losses (both or more than 2%), the S&P 500 rose nearly 6%, which was the index's best week since November 2022. Meanwhile, the tech sector had an even better week, with the NASDAQ 100 rising 6.5%.

Gains in US markets helped European and local markets too. After a run of weekly declines, the Euro Stoxx 50 gained 4%, while in New Zealand, the NZX 50 also ended a long run of weekly losses to finish up 3.3%.

The decline in bond yields saw bond prices get a much-needed boost. In the US, the 10-year government bond fell 30 basis points, closing at 4.56% - nearly 50 basis points off its recent high above 5%. And in New Zealand, the 10-year equivalent fell about 20 basis points.

What's happening in markets?

It was a busy week in the US, with most events providing relief for both bond and equity markets. Firstly, on Thursday, the Fed left the fed funds target rate unchanged at a range of 5.25% to 5.5%. It was the second consecutive pause after the Fed lifted interest rates to a 22-year high.

The sharp decline in bond yields was also driven by news that the Treasury Department will be looking to borrow US$776 billion in the final quarter of the year, which is below the $1.01 trillion the department borrowed in the September quarter. Before the announcement, there had been talk that the Treasury may need to borrow more than $800 billion to fund its spending obligations.

Issuance has become a key factor in bond prices of late. With more money required to fund operations and refinance current debt, a wave of supply has been pushing down bond prices, which has seen yields rise to multi-decade highs. Therefore, last week's news of lower-than-expected borrowing estimates was good news for bond prices.

Finally, Friday's US employment report came in softer than expected, further boosting the optimism that the Fed is done lifting interest rates. The economy added 150,000 jobs in October, while the unemployment rate rose to 3.9%, the highest level since January 2022.

By the end of the week, the CME FedWatch Tool, which tracks interest rate markets, showed there is a 5% chance of a 25 basis point hike in December, compared to a 20% chance a week ago, and a 39% chance a month ago.

Elsewhere, employment data was front and centre in New Zealand. It too was a little softer-than-expected. The unemployment rate rose to 3.9% for the three months to September, up from 3.6% the prior quarter. Wages rose 4.3% on an annual pace, led by pay in the public sector. The data will be a welcome relief to the Reserve Bank of New Zealand (RBNZ), which is hoping to see the labour market ease, which should help bring down core inflation.

Finally, in corporate earnings, all eyes were on Apple's release, which was mixed. Although the $1.46 earnings per share was slightly better than expected, its overall sales fell for the fourth quarter in a row.

What's on the calendar?

This week, the focal point is down under with the Reserve Bank of Australia (RBA) meeting on Tuesday. The RBA is tipped to restart its interest rate hiking cycle, with the market pricing in about a 75% chance of its key interest rate rising to 4.35%. The RBA was one of the earlier central banks to pause its rate hiking cycle, but some recent economic data suggest that inflation is proving more challenging to bring down than the central bank had originally thought.

In economic data, China will release its latest trade data on Tuesday, which will give another indication of how global demand is tracking with signs rising interest rates are starting to eat into household spending, while China will also release its latest inflation data on Thursday, where it is expected to show a mild pickup in prices.

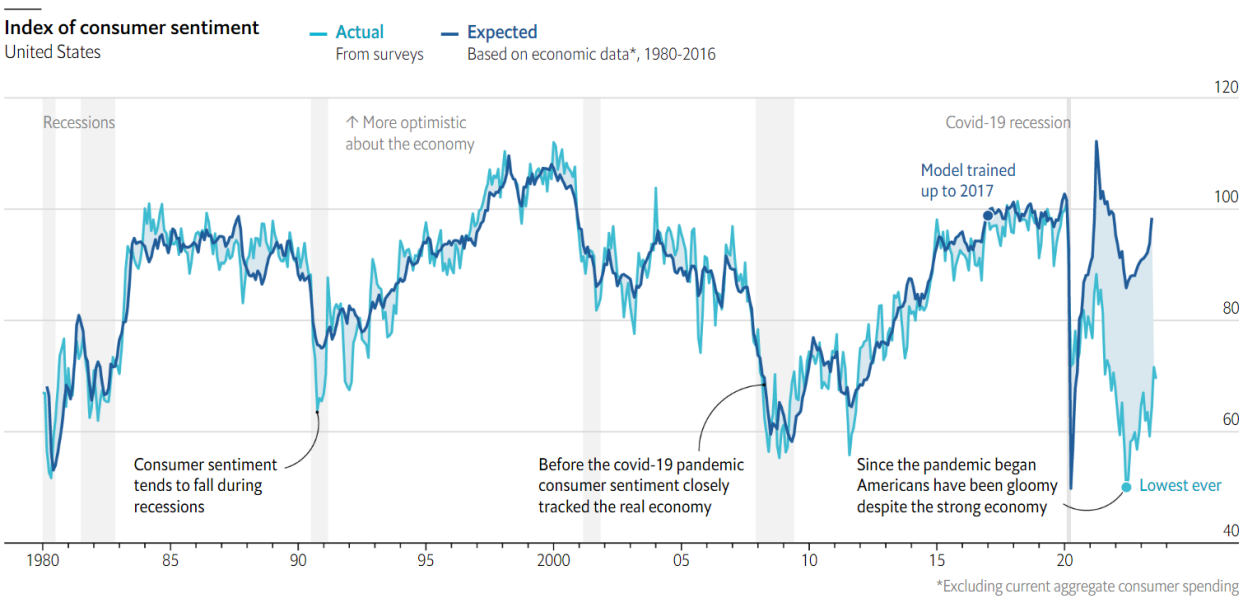
Elsewhere, on Friday, UK GDP data for the third quarter is expected to remain about flat – or even negative – as the country continues to deal with some of the highest inflation rates in the developed worlds, while Friday will also see the Michigan consumer sentiment figures released.

Finally, in corporate earnings, the release of Disney, Adidas and Marks & Spencer reports could provide details on consumer spending, while UBS and Credit Agricole also report.

Chart of the week

Since the COVID-19 pandemic, Americans have become much more gloomy about the state of the economy than it actually appears, prompting the rise of a new term called "vibecession", coined by online economics content creator, Kyla Scanlon.

Consumer sentiment has been a reliable indicator of the state of the economy, but as you can see below, the relationship between expected (using economic data) and actual sentiment (using the University of Michigan sentiment indicator) has broken down since the pandemic.



Here's what we're reading

Great news about American wealth: Regular Americans are getting richer. Click here.

Where is This Rally Going? Click here.