The Weekly Snapshot

7 August 2023

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

Global share markets were mostly lower. This followed news that a major credit rating agency, Fitch, had downgraded the US government's credit rating following concerns over the state of the country's finances and its burden of debt. Fitch, one of three major independent agencies that assess creditworthiness, cut the rating from its highest rating of AAA, to one notch lower, AA+.

"In Fitch's view, there has been a steady deterioration in standards of governance over the last 20 years, including on fiscal and debt matters, notwithstanding the June bipartisan agreement to suspend the debt limit until January 2025," the rating agency said.

Against this backdrop, financial markets had a challenging week. Bond yields rose, with the yield on the US government 10-year bond at one point up over 23 basis points (to its highest level since November last year), but finishing the week at 4.05%. When bond yields rise, their prices fall.

Given sharply rising bond yields, equity markets fell, as investors tend to use bond yields to assess the valuations of companies. The S&P 500 Index was down 2.3%, while the tech-heavy NASDAQ 100 Index fell 3.0%. Overseas markets took their direction from the US, with the FTSE 100 Index in the UK down 1.7%, Germany's DAX Index down 3.2% and Japan's Nikkei 225 Index down 1.6%.

New Zealand's share market held up better, with the NZX 50 index flat over the week, although Australia's ASX 200 Index was down 1.0%.

What's happening in markets?

As well as the Fitch downgrade, there was plenty of other news for investors to ponder over.

Across the Tasman, the Reserve Bank of Australia opted to leave interest rates unchanged at 4.1% when it met early in the week. It's the second consecutive month they've not moved on rates. The central bank said the decision buys them time to assess the impact of previous interest rate hikes, and it leaves the door open to the prospect of further hikes in the future.

"Some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend upon the data and the evolving assessment of risks," said RBA Governor, Philip Lowe, in an accompanying statement.

The decision came as inflation there slowed to 6.0% in the second quarter, down from 7.0% in the first quarter, but still well above the central bank's target rate of 2-3%.

In other central bank news, as widely expected, the Bank of England raised UK interest rates by a further quarter of a per cent to 5.25%, in an attempt to get on top of inflation there. While pricing pressure has eased, the UK still has the highest rate of inflation of the G7 economies.

In terms of economic data, the attention in the US was on all-important payrolls data late in the week. It showed that US employers added 187,000 jobs in July, less than expected, and a sign that the labour market is cooling. While the numbers show the jobs market is robust, July's gains represent a considerable dip compared to earlier this year, when 472,000 jobs were added in January. Investors took the weaker-than-expected numbers to suggest the Fed may be able to deliver a 'soft landing' (bringing down inflation without causing a recession) and this offered bond markets a respite late in the week.

Despite the softer than expected jobs growth, wage inflation came in higher than expected, with average hourly earnings remaining elevated at 4.4% year-on-year.

Meanwhile corporate earnings season continued, with two big-name companies reporting during the week. Amazon saw its shares up over 5% as it beat profit expectations and offered positive guidance, while Apple lost 7% after its revenues came in lower than expected. According to FactSet, around 80% of S&P 500 companies have now reported their results, with about 80% beating expectations.

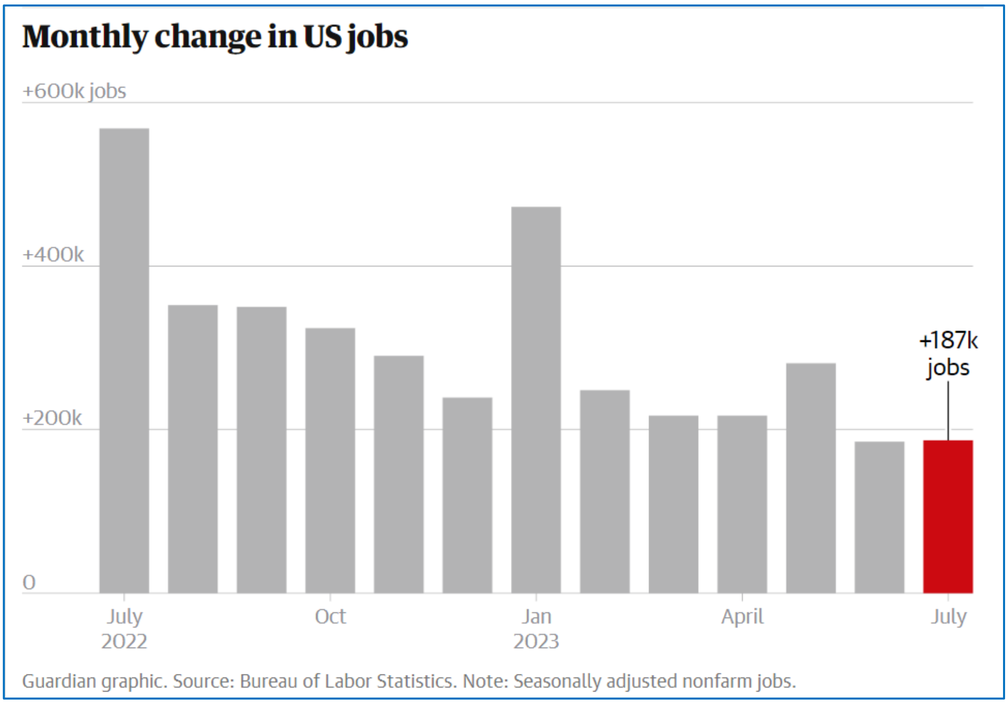
What's on the calendar?

The key focus this coming week will be on US inflation (Consumer Price Index data). Annual US headline inflation has fallen from a peak of over 9% last year, to 3.0% last month (June), and so investors will be keen to see if we're still progressing towards the Fed's inflation target level of 2%.

However, forecast expectations are that the headline rate may edge slightly higher in July, although the core rate may continue to cool. Investors will be looking for evidence of whether or not the US Federal Reserve may be tempted to raise interest rates again at its next meeting in September.

Chart of the week

The chart below shows the monthly change in US jobs. June and July represent the two weakest monthly gains in two and a half years, with job gains below 200,000 a month. It compares to an average monthly gain of over 400,000 last year (2022).



Here's what we're reading

Bank of England warns rates to stay high as borrowing costs hit 15-year peak. Click here.

The partisan portfolio divide. Click here.

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