The Weekly Snapshot

7 February 2023

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

Global equity markets traded mostly higher last week, continuing their good run, which has seen some indices climb as much as 10% this year. In the US, the S&P 500 finished the week up about 1.6%, while the NASDAQ 100 rose more than 3%, its fifth consecutive week of gains.

Despite the good week, US stock gains were trimmed a little on Friday after some strong economic data meant the Fed would likely remain on the hawkish side, quashing hopes of any interest rate cuts in late 2023 or 2024.

Closer to home, it was a good week in New Zealand with the NZX 50 rising to its highest level in about 10 months, finishing the week up 1.3%. Like the NASDAQ 100, it too has recorded five straight weekly gains.

What's happening in markets?

Last week was all dominated by central banks, with interest rate rises from the US Federal Reserve (the Fed), the European Central Bank (ECB) and the Bank of England (BoE).

Beginning in the US, the Fed, as expected, raised its fed funds rate by 25 basis points – the seventh consecutive interest rate rise. The accompanying statement and follow-up press conference were relatively balanced with Fed Chair Jerome Powell acknowledging that inflation, particularly PCE and core PCE, is on the right trajectory, but a few months of softer-than-expected readings is not enough for the Fed to end its policy tightening. Some key takeaways included:

On more interest rate rises: *"The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time"* the statement read.

On the prospect of a soft landing: *"I continue to think there's a path to getting inflation back to 2% without a significant economic decline or significant increase in unemployment",* Powell said.

In Europe, the ECB raised its three key interest rates by 50 basis points and signalled that another 50 basis point increase was likely in March. While ECB President Christine Lagarde reiterated pricing pressures remained across Europe, she was relatively upbeat on the outlook for the economy, saying it has "proved more resilient than expected and should improve over the coming quarters."

Finally, the BoE raised its policy rate by 50 basis points, and signalled that there are signs it is getting on top of inflation – albeit from multi-decade high levels. On another positive note, the central bank revised its economic outlook predicting a shallower recession than previously set out in the prior projections. It expects a slight contraction throughout 2023 and into the early parts of 2024.

In economic data, it was a blowout US nonfarm payrolls report, with the economy adding 517,000, nearly three times market expectations, while the unemployment rate hit its lowest level since 1969. The data underscores the resilience of the labour market that Fed Chair Powell cited during his press conference and is likely to keep the Fed on the hawkish side.

Finally, it was also a busy weak on the earnings calendar with some notable misses from household names Amazon, Alphabet (parent company of Google) and Apple. Broadly speaking, the results from the trio showed businesses and consumers continue to be stretched by rising prices, with Apple sales falling 5% in the three months to December compared with the same period in 2021.

What's on the calendar

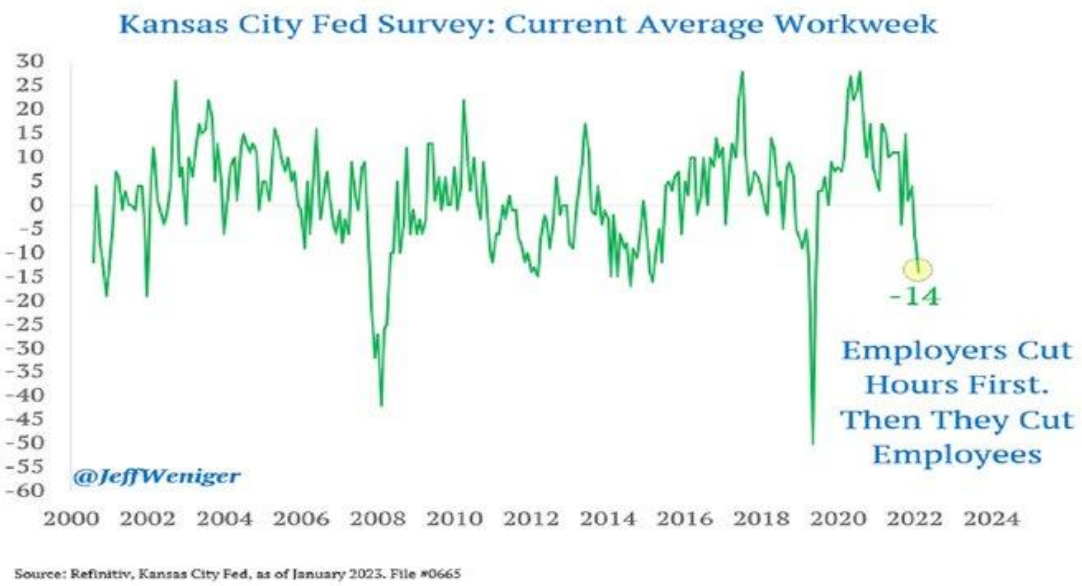
After a busy week, things quieten down a little with the focus on earnings. Companies to watch for this week include Disney, Chipotle, Yum! Brands and PepsiCo. These four should give a good snapshot of the health of the underlying economy and how well consumers are faring amid rising prices.

Elsewhere, Fed Chair Powell will deliver a speech at the Economic Club of Washington where he is expected to field questions on policy, and also his thoughts on the whopping jobs report from last week.

Finally, we get another central bank meeting with the Reserve Bank of Australia (RBA) expected to deliver another 25 basis point hike on Tuesday. The RBA, like most forecasters, was likely caught off guard by the surprise Q4 2022 inflation data that showed prices were running at 7.8% on an annual basis. However, according to interest rate markets, it is unlikely the central bank will deliver an interest rate hike of more than 25 basis points.

Chart of the week

Although we just saw a ginormous nonfarm payrolls number, there are a few signs that the hot labour market in the US *could* be showing signs of cooling with employers cutting hours – it can often be a precursor to job cuts should the broader economic conditions deteriorate.



Here's what we're reading

From the archives: Last week to the day in 1637 marked the bursting of the bubble in tulips, bringing to an end Tulipmania - https://www.theparisreview.org/blog/2014/02/03/tulipomania/

Famed Value investor Seth Klarman and his forgotten lessons from the 2008 Global Financial Crisis - https://investmenttalk.substack.com/p/the-forgotten-lessons-of-2008-seth