

# The Weekly Snapshot

8 May 2023

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

It was a topsy-turvy week for global equity markets as concerns around US regional banks saw US share markets fall each of the first four days before a strong Friday session erased some of the early losses. For the week, the S&P 500 fell 0.8%, while the NASDAQ 100 managed to claw back to flat. The KWB Regional Bank Index, which tracks US regional banks, fell nearly 8% over the week – although it was down as much as 11% on Thursday.

The equity weakness flowed through to Australasian markets with the NZX 50 and the ASX 200 both falling more than 1%.

Meanwhile, the banking concerns saw US bonds in demand, especially late in the week. After rising on Monday to 3.60%, the yield on the US 10-year government bond fell to about 3.30%, before closing the week just above 3.40%.

### What's happening in markets

US regional banks were back in the spotlight last week with PacWest Bancorp and Western Alliance Bancorp under pressure as concerns they may be headed down a similar path to some of their predecessors. On Wednesday afternoon, shares in PacWest fell more than 50% in after-hours trading, after the bank said it was exploring options – signs that it may be facing financial issues.

*"In accordance with normal practices the company and its board of directors continuously review strategic options. Recently, the company has been approached by several potential partners and investors – discussions are ongoing. The company will continue to evaluate all options to maximize shareholder value"* - PacWest said in a statement.

Then on Thursday, shares in Western Alliance tumbled as much as 60% after reports it too was considering various options. However, the bank was quick to deny the reports, saying it was "not exploring a sale". Nevertheless, shares in the company still ended the day down about 40%, suggesting there may be some underlying concerns.

On Friday, as volatility subsided, shares in both banks surged back higher, although both still ended the week lower.

Banking woes aside, it was a busy week with the Federal Reserve (the Fed) lifting the fed funds rate by 25 basis points, taking the cumulative interest rate hikes to 500 basis points in this cycle. Interest rate markets were quick to price in no further hikes when Fed Chair Jerome Powell hinted that it could be the last hike. Then, as the banking crisis began to unfold, interest rate markets moved to price in ~40% of a rate-cut in by July's meeting, according to data from the [CME Group's FedWatch tool](#).

In other central bank news, the European Central Bank (ECB), as expected, lifted its key interest rates by 25 basis points, while the surprise came in Australia where the Reserve Bank of Australia (RBA) unexpectedly lifted its cash rate by 25 basis points to 3.85% after keeping it unchanged a month ago.

Finally, employment data in New Zealand and the US continued to show labour markets remained resilient in the face of rising borrowing costs and a slowing economic activity (notably the manufacturing sector and retail spending). In New Zealand, the unemployment rate was unchanged at 3.4%, near a record low, while in the US, the economy added 253,000 jobs in April, which saw the unemployment rate drop to 3.4% from 3.5%. Meanwhile, average hourly earnings rose 0.5% over the month and 4.4% from a year ago, both higher than expected.

## What's on the calendar

The state of US regional banks will continue to hover over financial markets as the recent volatility would suggest there may be some further underlying concerns.

On the economic data calendar, US CPI for April is out this week, where it is expected year-on-year inflation dipped below 5% for the first time in about two years, while a reading below 5% would be the 10<sup>th</sup> consecutive year-on-year decline since peaking at 9.1%.

Meanwhile, trade data out of China will confirm whether March's bumper export numbers were a post-COVID pop or a true rebound in the economy. China will also report inflation numbers this week.

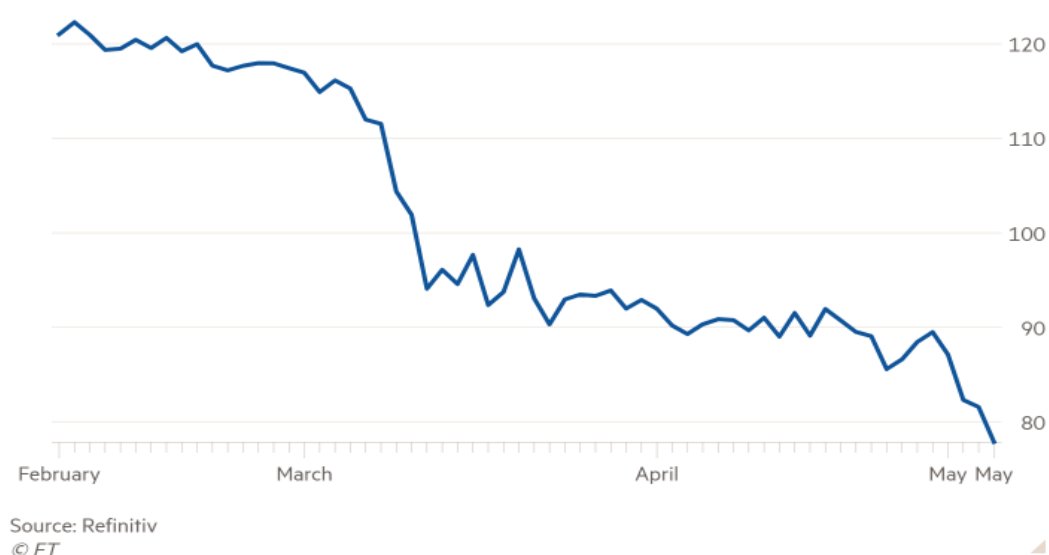
Finally, the Bank of England (BoE) is expected to lift its policy rate by a further 25 basis points as inflation is showing no signs of cooling. At 10.1%, UK inflation is the highest across Western Europe.

## Chart of the week

The regional banking woes can be summed up in its YTD performers versus broader indices. As of 5 May, the KBW Regional Bank Index (below) is down about 30%, while the broader S&P 500 is up about 6% and the NASDAQ 100 is up nearly 20%.

### US regional banks tumble on renewed health fears

KBW Regional Banking Index



## Here's what we're reading

The AI Boom: This company adopted AI. Here's what happened to its human workers -

<https://www.npr.org/sections/money/2023/05/02/1172791281/this-company-adopted-ai-heres-what-happened-to-its-human-workers>

Pertinent for now: Why Banks Keep Failing - <https://www.theatlantic.com/ideas/archive/2023/04/why-first-republic-failing/673914/>

What Happens When the US Hits Its Debt Ceiling? - <https://www.cfr.org/background/what-happens-when-us-hits-its-debt-ceiling>

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