# The Weekly Snapshot

## 1 August

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

Equity markets continued their modest rebound last week, with several global indices recording their second straight week of gains. The weekly performance was highlighted by a strong rally after the US Federal Reserve meeting on Wednesday. For the week, the S&P 500 and NASDAQ 100 rose more than 4%, while down under, the NZX 50 and ASX 200 finished up around 2%.

Bonds also had a good week, with the US 10-year government bond yield falling more than 10 basis points, closing at 2.65%, its lowest level in more than three months. Government bond yields in month other developed nations also ended the week lower.

**What's happening in markets?**

On Wednesday, the Fed, as expected, raised the fed funds rate by 75 basis points, its second straight 75 basis point hike, which took the key policy rate to its highest level since 2018. The ensuing equity market rally, which saw US indices finish Wednesday up between 2.5% and 4%, was in part to comments from Fed Chair Jerome Powell that the committee acknowledged there is a trade-off with higher rates (lower growth and higher unemployment) and that the central bank is willing to slow the pace of interest rate hikes if the economy starts to slow – a dovish tone of sorts.

> ***"While another unusually large increase could be appropriate at our next meeting, that is a decision that will depend on the data we get between now and then. We will continue to make our decisions meeting by meeting and communicate our thinking as clearly as possible."*** – Fed Chair Jerome Powell

This rhetoric became more pertinent when on Thursday, economic data showed the US economy contracted during the second quarter by 0.9%, the second consecutive quarterly decline, which is a common definition of a recession.

On a more upbeat note, earnings from some household names held up ok given the broad downbeat sentiment. Shares in Alphabet – the parent company of Google – rose nearly 8% after the company slightly missed on earnings and revenue, while it was the same for Microsoft, which results also came up a little shy of expectations, but shares in the company rose sharply after the result. Elsewhere, Apple was one of the standouts, surpassing expectations, and issuing some positive forward guidance: "In terms of an outlook in the aggregate, we expect revenue to accelerate in the September quarter despite seeing some pockets of softness," Apple CEO Tim Cook said in an interview.

In New Zealand, economic data continued to worsen with the ANZ Business Outlook survey showing residential construction intentions on the slide, with building consents falling as the economy continues to struggle with higher interest rates.

And across the Tasman, inflation in Australia hit its highest level in more than 20 years with CPI rising at an annual rate of 6.1% driven largely by transport (+13.1%), housing (+9%) and furniture (+6.3%) costs. Although the 6.1% was below most forecasts, it isn't likely to deter the Reserve Bank of Australia from continuing its policy tightening over the coming months.

**What's on the calendar**

This week, the central bank interest rate hiking cycle is set to continue with the Reserve Bank of Australia, as just mentioned, expected to raise its policy rate by 0.5%. There had been some forecasters suggesting a 75 basis point hike, but with inflation coming in slightly below consensus the odds of this have fallen, and interest rate markets are suggesting a 50 basis point hike. And in the UK, the Bank of England is primed for another interest rate hike with inflation running at 9.4%.

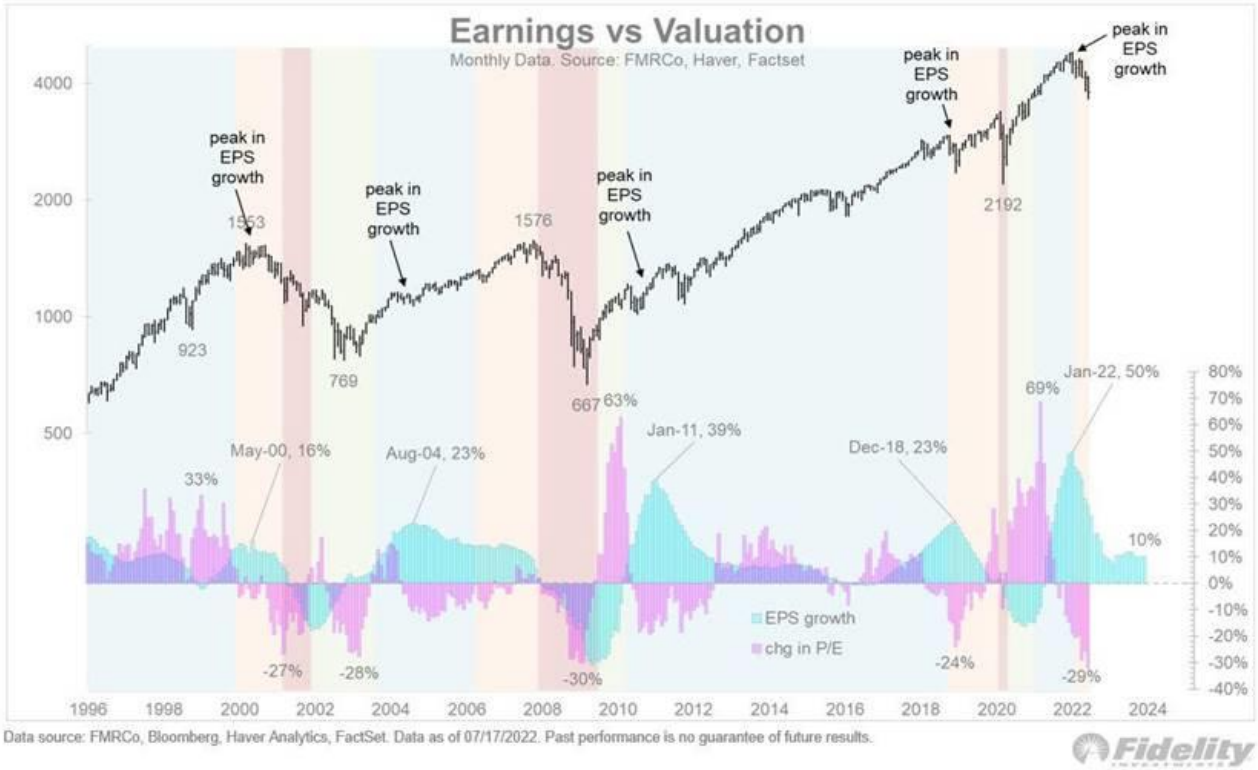
In economic data, the attention will come at the end of the week with the US employment report. With growth slowing and interest rates on the rise, the employment sector remains one of the key pillars of the economy, and any signs of weakness could see investors pare back expectations of further interest rate hikes by the Fed.

We will also get employment data from New Zealand, which is expected to show further tightening of the labour market, which will continue to put pressure on labour costs,

Finally, in economic activity data, Purchasing Managers Index (PMI) figures from China and the US will be closely watched with companies continuing to state they are struggling with higher costs and labour market concerns.

**Chart of the week**

Earnings may just determine whether or not the stock market low is in. An earnings contraction would suggest more downside pressure, or if it's just a slowdown in earnings growth, the valuation-driven selling may be over.




**Here's what we're reading**

The future of remote work, according to 6 experts – https://www.vox.com/recode/23205039/future-remote-work-experts-promotion-recession

The transitory inflation debate is over….or is it - https://www.capitalspectator.com/is-there-a-case-for-a-return-of-disinflation-deflation/

Howard Marks' memos are always worth a read. Here he argues that departing from the pack and being able to think differently is how you outperform - https://www.oaktreecapital.com/docs/default-source/memos/i-beg-to-differ.pdf