The Weekly Snapshot

2 August

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

US equity markets finished slightly lower last week after a busy week of corporate earnings, economic data and the Federal Reserve meeting. For the week, the S&P 500 ended down 0.4%, while the NASDAQ 100 fell around 1%. In New Zealand, a weak Friday session saw the NZX 50 end the week lower too.

The recent decline in government bond yields slowed, but most finished at or near their five-month lows.

What's happening in markets

The centre point last week was the US Federal Reserve meeting which didn't offer up too many surprises with the committee leaving interest rates unchanged and maintained its relatively accommodative stance.

Some had expected the Fed to provide some guidance on tapering bond purchases with the economy running at a good pace and the rate of inflation above average. However, in his press conference, Fed Chair Jerome Powell said the committee agreed the economy was not ready to begin tapering.

> ***"Our approach here has been to be as transparent as we can. We have not reached substantial further progress yet, so we're not there (regarding tapering) and we see ourselves as having some ground to cover to get there"*** – Powell said.

Nevertheless, Powell said the central bank was pleased where the economy was, despite the growing pandemic concerns, saying "indicators of economic activity and employment have continued to strengthen".

Confirmation of the strengthening US economy came on Thursday when economic data showed the US economy grew at annualised rate of 6.5% over the second quarter, driven largely by consumer spending. However, the 6.5% was below what most had expected.

It was a big week for corporate earnings, highlights included:

- Alphabet, the parent company of Google, reported more than US$50 billion in ad revenue for the year, a 69% increase from a year prior.
- Amazon reported weaker-than-expected sales numbers and the company's CFO said they expect to see slower growth in the comings quarters. The miss on sales and cautious comments saw shares in Amazon finish the week down nearly 10%.
- Apple beat forecasts, reporting a 36% year-on-year increase in sales, driven largely in part by a near 50% increase in iPhone sales. However, CEO Tim Cook said the current supply chain issues are likely to affect the company's iPhone and iPad sales in the coming quarter.

So far, more than 80% of S&P 500 companies have beat estimates.

In COVID-19 news, there was some good data in the UK with cases declining steadily after the country removed lockdown measures – contrary to what many had thought after the so-called "Freedom Day". Meanwhile, in Australia, cases continued to rise, with daily cases in New South Wales above 200.

Finally, Chinese regulators continued their crackdown on internet companies which weighed on a number of tech and online education companies.

What's on the calendar

This week, the focus will come late in the week with the US employment report for July. With the Fed continuing to stress the need for further improvement in the labour market before any normalisation of their balance sheet and interest rates, a stronger-than-expected report could see the market begin to price in the start of bond tapering sometime this year. Forecasts are for more than 700,000 jobs added in July.

Jobs data is also on tap down under with New Zealand's Q2 employment report expected to show the unemployment rate fell further, putting the economy at or near full employment. The recent rise in the rate of inflation should also see an uptick in hourly earnings.

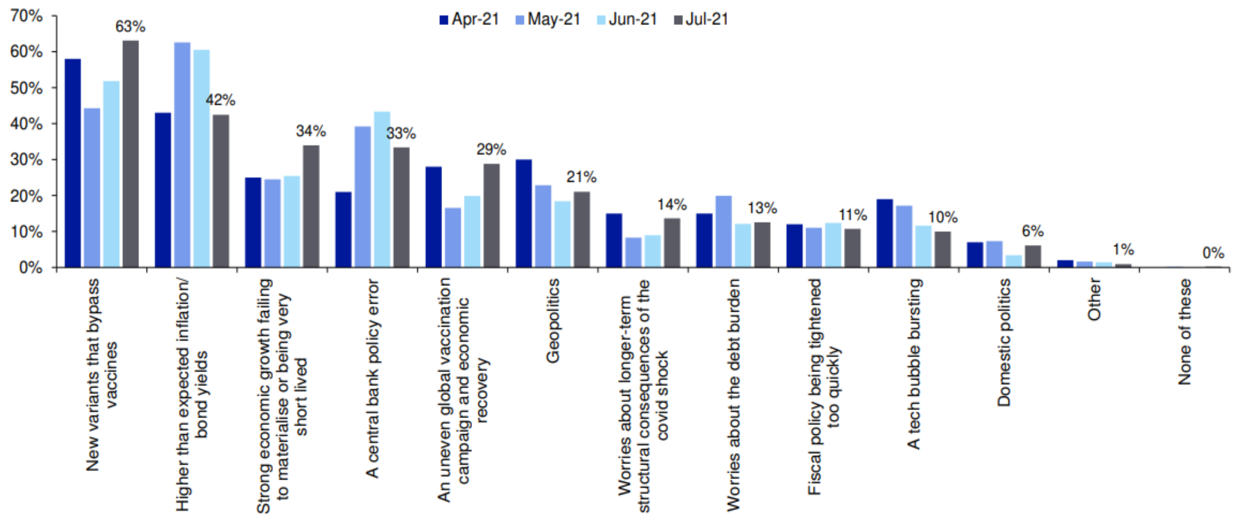
Finally, the Reserve Bank of Australia meets on Tuesday, where it will likely strike a vastly different tone from last month's meeting where it said the economy was on a positive path. The change comes after the COVID-19 lockdowns are starting to weigh on the economy, with many expecting the economy to contract in the third quarter.

The RBA had prior said it would begin winding down its bond-buying programme, however, given the circumstances, it may readdress this on Tuesday.

Chart of the week

How things change: According to Deutsche Bank's latest poll of institutional investors, the biggest risk to markets is no longer inflation, it's a COVID variant that can bypass vaccines.

Figure 1: Which of the following do you think pose the biggest risks to the current relative market stability? Please select up to three



Source : dbDIG Survey, Deutsche Bank

Here's what we're reading

How Everybody Miscalculated Housing Demand: New Zealand is not the only place that saw a sharp rise in house prices during the COVID-19 lockdowns during 2020. Here's a look at what happened in the US housing market over the past 18 months. - https://ritholtz.com/2021/07/miscalculated-housing-demand/

What the crackdown by Chinese regulators could mean for US-listed Chinese companies - https://www.institutionalinvestor.com/article/b1swmvymxvnxqh/Is-the-End-Near-for-U-S-Listed-Chinese-Companies-Probably-Says-Carson-Block