

The Weekly Snapshot

22 August

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

After a few good weeks, US equity markets traded lower last week as a jump in bond yields reinforced the notion that central banks' work to tame inflation is far from over. In the US, the S&P 500 fell around 1.2%, while the NASDAQ 100 ended down around 2.5%.

Bond yields were higher across the board, with the big movers in Europe after some red-hot inflation data. The yield on the UK 10-year government bond rose around 30 basis points, while in the US, the 10-year equivalent rose around 13 basis points.

In New Zealand, despite a busy week, equity and bonds finished near where they began the week.

What's happening in markets?

The Reserve Bank of New Zealand (RBNZ) delivered little surprises last Wednesday, raising the Official Cash Rate (OCR) by 50 basis points, its fourth successive 50 basis point hike and also raising the forward track – the rate it expects the OCR to peak – to 4.1%, up from 3.95%.

One snippet of note was around the pace of interest rate hikes and whether faster hikes were appropriate given the rate of inflation.

"The Committee discussed whether more rapid increases could improve the credibility of the inflation target and reduce the risk of a significant increase in inflation expectations", - the RBNZ said in its statement.

Despite all this, the RBNZ's message was much the same, reiterating house price weakness, labour shortages and signs of slowing global growth.

The big news offshore was the UK CPI report, which showed inflation hit double digits, rising at an annual pace of 10.1% in July, a 40-year high. The jump was largely driven by rising food and energy prices and comes just a few weeks after the Bank of England (BoE) said inflation could top 13% later this year.

In the US, retail giants Walmart and Home Depot reported earnings that showed consumer spending continued to hold up, despite rising energy and food prices weighing on their customers. Walmart reported stronger sales and profits than forecasted, while Home Depot reported record quarterly sales and earnings figures.

However, there were signs that consumers are feeling the pinch, with some consumers trading down brands and products. "As an example, instead of deli meats at higher price points, customers are increasing purchases of hot dogs as well as canned tuna or chicken", Walmart CFO, John Rainey said.

What's on the calendar

This week, markets will be focused on Federal Reserve Chair Jerome Powell's speech at the annual central bankers' conference in Jackson Hole, Wyoming. After some up-and-down data, his speech could provide further guidance on the outcome of the next Fed meeting where interest rate markets are split between a 50 or 75 basis point hike.

While headline inflation appears to have peaked, several high-profile Fed members remained steadfast in their view that the central bank needs to remain aggressive. Of note is James Bullard, who said in an interview last week he doesn't want to see interest rate hikes dragged out into next year, and added that market expectations of rate cuts in the future were "definitely premature".

While all eyes will be on Jackson Hole this week, there is a slew of data this coming week, which is highlighted by the US core PCE price index, the Federal Reserve's preferred measure of inflation. Elsewhere, several countries/regions report PMI data, including the US, the UK, Germany and the eurozone.

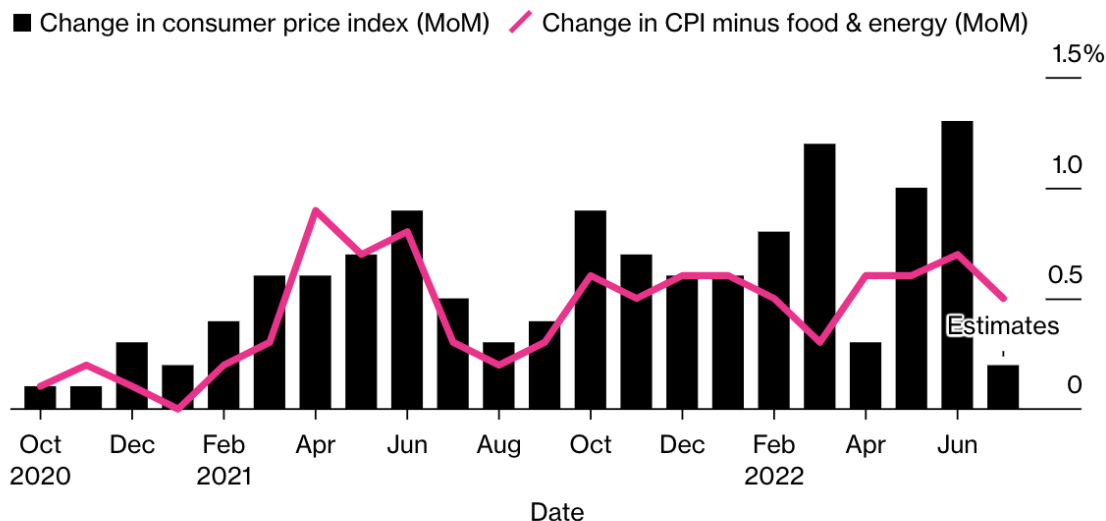
After the RBNZ meeting last week, it's a little bit quieter in New Zealand with retail sales figures highlighting the week ahead.

Chart of the week

Falling energy costs in the US could be a welcome sign for the Federal Reserve (according to the American Automobile Association, the [national average gas price](#), as of 17 August, has dipped below \$4/gallon, down from just above \$5 in June).

US Inflation Poised to Cool

Lower energy costs to temper CPI, though core measure seen elevated



Here's what we're reading

While the consensus of a bear market is a 20% decline from a recent peak, when is one over? -

<https://awealthofcommonsense.com/2022/08/when-is-a-bear-market-over/>

It may seem that the first half of 2022 was gloomy, but here are four things to counter the downbeat narrative - <https://www.project-syndicate.org/commentary/four-reasons-recession-fears-may-be-overblown-by-jim-o-neill-2022-08>

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