The Weekly Snapshot

29 August 2022

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

For the second week in a row, global equity markets headed lower, as US equities dropped on Friday following comments by Federal Reserve Chair Jerome Powell, who, in a much-anticipated Jackson Hole speech, said that the central bank would not be backing off in its fight against inflation.

On Friday alone, the Dow Jones Industrial Average shed over 1,000 points to finish the day down 3.0%, while the broader S&P 500 Index and the tech-heavy NASDAQ 100 Index fell 3.4% and 3.9% respectively.

It meant that over the week as a whole, the S&P 500 Index lost 4.0%, erasing the strong gains that had been made earlier in August.

Other international markets fared better over the week, but only because Asian and Australasian markets were already closed by the time Jerome Powell was speaking on Friday – so we should expect a weaker start to the new week as local markets play catch up.

Bond markets however took the speech in their stride, with the yield on the US 10-year government bond up only 1 basis point on the day, to 3.04%, which was up 5 basis points over the week and back above the 3.0% level.

What's happening in markets?

Speaking in Jackson Hole, Jerome Powell said the Federal Reserve "must keep at it until the job is done", underscoring its resolve to keep raising interest rates in order to tackle rapid price rises.

"W*hile higher interest rates, slower growth, and softer labour market conditions will bring down inflation, they will also bring some pain to households and businesses*", said Powell. "*These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain*."

He went on to say that "*We are moving our policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2%."*

His remarks came after the personal consumption expenditures price index – the Federal Reserve's preferred measure of inflation, rose at an annual rate of 6.3% last month. While it's down from the 6.8% in the previous month, inflation remains well above the central bank's target level.

Market pricing following his speech suggests investors are expecting the Federal Reserve to raise interest rates to 3.8% by early 2023, much higher than the 3.3% expected at the start of this month. The current fed funds target range is 2.25-2.50%.

The implications for equity markets is that previous expectations of a pivot in Fed policy (which drove share markets higher earlier in August) may have been somewhat premature, Ultimately, higher interest rates will weigh on economic growth prospects and could tip the economy into a recession – and would impact negatively on future company profits.

The fall in shares was broad-based, with almost all companies on the S&P 500 Index down on the day, with every sector in the red, with technology and more cyclical consumer stocks the worst performers.

What's on the calendar

This week, markets will be focused on speeches from some of the other Federal Reserve governors, which could offer more clues as to the future path of US interest rates. Staying in the US, the market expects consumer confidence numbers to have improved slightly from the previous month, while attention will also turn to the US payroll number. Another stronger-than-expected number could strengthen the odds of another 75 basis point hike at its next meeting in September.

Closer to home, in Australia, the market expects retail sales to grow 0.3%, while in New Zealand, investors will be looking to see if business confidence has improved once again (even though the number is likely to remain negative overall).

Chart of the week

On Friday, US equities suffered their biggest falls since June, erasing the gains they had made earlier in the month. Equity markets were a sea of red, albeit with some outliers to the general trend.

	Weekly	Monthly	Year to Date
Dow Jones	-4.22%	-0.75%	-11.16%
S&P 500	-4.04%	-0.36%	-14.87%
Nasdaq	-4.44%	-0.17%	-22.39%
Russell 2000	-2.94%	+1.43%	-15.39%
ASX 200	-0.15%	+3.11%	-4.57%
NZX 50	-0.53%	+2.29%	-14.50%
Hang Seng	+2.01%	-2.19%	-13.79%
Shanghai	-0.67%	-1.41%	-11.09%
Euro Stoxx 50	-2.29%	-1.33%	-16.16%
FTSE 100	-1.63%	+1.12%	+0.58%

Source: investing.com

Here's what we're reading

If markets never crashed, they wouldn't be risky. If they weren't risky, they would get expensive. When they're expensive, they crash. Crazy times aren't an accident – they're an inevitability: https://www.collaborativefund.com/blog/big-beliefs/

Save like a pessimist, and invest like an optimist
https://www.collaborativefund.com/blog/PF/