The Weekly Snapshot

30 August 2021

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

It was a great week for equity markets, both locally and globally. Despite the New Zealand Government extending the nationwide Alert Level 4 lockdown into this week, the NZX50 Index hit levels not seen since early February, as some strong earnings announcements from local companies buoyed investor sentiment.

Meanwhile, despite a speech on Friday which suggested that the US Federal Reserve may begin withdrawing stimulus later this year, US shares pushed higher. Against this backdrop, the S&P 500 Index and the Nasdaq Index hit new all-time highs.

In contrast, bond yields in most developed markets ended the week higher. The yield on the New Zealand 10-year government bond finished the week up around 12 basis points, while US yields were up around 5 basis points.

A good week for New Zealand shares despite the lockdown

New Zealand's nationwide lockdown will remain in place until Tuesday night, which is when the rest of the country (outside of Auckland and Northland) will move to Alert Level 3. Auckland however looks set to spend an additional fortnight at the higher Alert Level 4 setting, as the majority of the cases (496 out of 511 in total) are within its boundaries.

While ongoing lockdown isn't great from an economic or growth perspective, investors put this to one side last week, focussing instead on an overall strong earnings season for New Zealand companies. Being over half way through, more companies have beaten expectations than fallen short, and this has been supportive of shares. Add to this a sharp jump in the price of Z Energy (on the prospect of a takeover by Australia's Ampol), as well as other local companies trading at record highs (such as logistics company Mainfreight, and retirement village operator Summerset), and overall it was a strong week for the NZX 50 Index.

In fact, the NZX50 Index is now trading only 500 points off its January 2021 record highs.

Jerome Powell on Fed 'tapering' and US interest rates

On the global stage, all eyes (but mainly ears) were on the US Federal Reserve's Chairman, Jerome Powell, as he delivered a highly-anticipated speech at the annual Jackson Hole Economic Policy Symposium. Investors were looking for clues as to the future path of monetary policy in the US.

He suggested that the Reserve Bank may begin to withdraw stimulus (by reducing the amount of bond purchases it makes each month, i.e. 'tapering') this year, but that it was in no rush to raise interest rates. Share markets reacted positively to his comments, because it suggests that interest rate increases are not imminent. In contrast, bond markets fell, largely as it confirmed that bond market 'tapering' will begin.

Specifically, Mr Powell said: *"We have said that we would continue our asset purchases at the current pace until we see substantial further progress toward our maximum employment and price stability goals. My view is that the 'substantial further progress' test has been met for inflation. There has also been clear progress toward maximum employment."*

He said the bank would start easing the pace of asset purchases this year while monitoring the *"evolving risks"* of coronavirus. However, he said interest rate increases would be based upon the economy returning to maximum employment and inflation returning to the bank's 2% target.

"We have much ground to cover to reach maximum employment, and time will tell whether we have reached 2% inflation on a sustainable basis," Mr Powell said.

What's on the calendar

It's a fairly quiet end to August. In local markets the main focus is likely to remain on case numbers, but investors will also look towards the remaining earnings results – which will determine whether the NZX 50 Index can continue its recent strong run and move back close to its record highs.

In the US, the key focus will be on Friday's August employment report, especially since Jerome Powell has emphasised its need to see more strong jobs data before the US Federal Reserve would start to unwind its bonds purchases. Other important economic data points this week includes US consumer confidence and the ISM manufacturing survey.

In Europe, attention will likely be on inflation data (EU Flash Consumer Price Index). However, inflation in Europe has been weak – in stark contrast to that seen elsewhere in the world, especially the UK and US. So it'll be interesting to see if this continues to be the case or not.

Chart of the week

With all eyes on the US employment report, the number of available jobs since May has outnumbered Americans looking for work. One factor is a mismatch between where people want to work and which industries are hiring. Note that the spike in unemployment last year came as many US states issued stay-at-home orders in response to COVID-19.