The Weekly Snapshot

8 August

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

Several US equity indices recorded their third straight week of gains after another week of relatively strong corporate earnings, while some better-than-expected economic data saw bond yields rise as investors positioned for further interest rate hikes from the Federal Reserve.

For the week, the S&P 500 rose around 0.5% and the NASDAQ 100 gained more than 2%, while the yield on the US 10-year government bond rose more than 15 basis points. And in New Zealand, the NZX 50 capped off its third straight weekly gain, ending up around 2%, while bond yields in New Zealand finished slightly lower.

What's happening in markets?

Friday's US employment report dominated the headlines with the economy adding a whopping 528,000 jobs in July, far ahead of expectations. Meanwhile, the unemployment rate dropped to 3.5%, matching a multi-decade low.

Recent announcements of layoffs from some well-known companies raised concerns that the job market may be softening, but Friday's report put those concerns to bed, at least for now, and saw interest rate markets quickly move to price in a high chance of another 75 basis point hike by the Federal Reserve in September. According to the CME FedWatch tool, which tracks fed funds rate pricing, the odds of a 75 basis points hike sits at around 70%, up from around 35% the day prior.

In other US economic data, the ISM services PMI, a key barometer of business conditions, rose to 56.7%, up from June and ahead of forecasts. The reading goes against recent growth data and suggests that Americans are still spending and the economy is expanding.

Meanwhile, corporate earnings continued to hold up reasonably well. Of note were PayPal, which reported a 9% jump in revenue, and biotech firm, Moderna, which saw its sales rise 9% compared to the same period last year. However, the firm did announce it took a $500 million hit on expired or expiring COVID-19 vaccines.

Employment data in New Zealand was in focus last week as well. It showed that in the second quarter, the unemployment rate rose to 3.3%, slightly higher than most had expected, however, wage prices rose sharply, with average hourly earnings up 6.4% for the year ending 30 June. This is likely to see the Reserve Bank of New Zealand (RBNZ) forge ahead with further interest rate hikes.

In central bank news, the Reserve Bank of Australia (RBA) and the Bank of England (BoE) raised interest rates with inflation in both countries still well entrenched. The RBA also downgraded its growth outlook, while the BoE said inflation could top 13% as energy prices continue to rise, which is likely to send the economy into a recession.

What's on the calendar

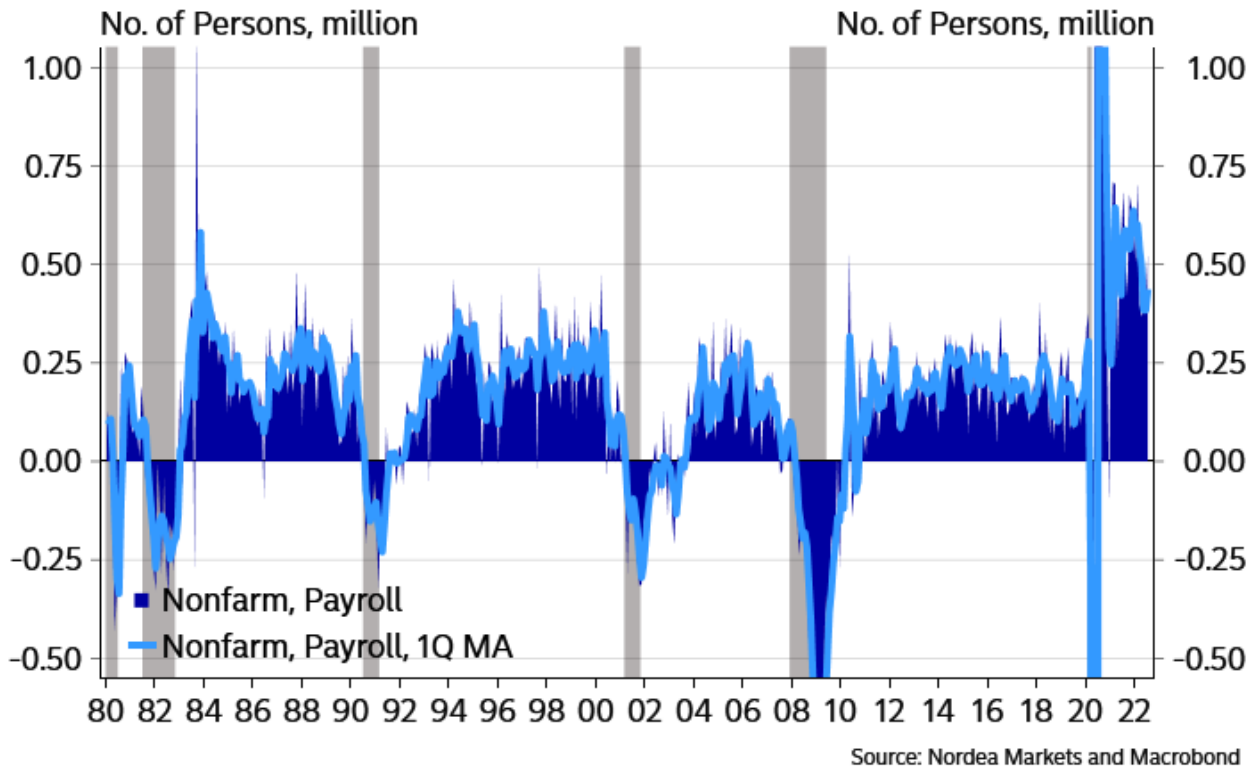
This week, it's all about one thing – US inflation data: With interest rate markets now pricing in a significant chance of a 75 basis point hike by the Fed in September, a higher-than-expected reading could see markets move to fully price in a 75 basis point hike, which could create headwinds for equity markets as investors may perceive the interest rate hikes to date have had little effect in reining in prices.

However, there are signs that inflation may be starting to moderate – most notably the fall in oil prices – and if the reading does come in below consensus the aggressive tightening path could be re-priced lower, which could help extend the recent equity market rally. Either way, after the strong jobs report, the inflation print is expected to be one of the most closely watched of late.

Other than US inflation data, it's a relatively quiet week ahead. Some tier two economic data includes China CPI, US sentiment data and UK GDP, which is expected to show the economy is facing significant headwinds amid surging inflation.

Chart of the week

Economic data is pulling markets in different directions. Growth data and sentiment surveys suggest the economy is facing headwinds, while if you look at the employment situation, it would suggest the US economy is far from a slowdown.



Here's what we're reading

Jobs data and corporate earnings are holding up well. However, growth is trending lower and sentiment is waning. The contradictions of the US economy and trying to piece it all together – https://qz.com/the-weird-contradictions-rendering-the-us-economy-inexp-1849355231

The stock market can be an emotional roller coaster. It shouldn't be - https://www.vox.com/even-better/23281067/investment-risk-tolerance-stock-market-volatility-economy