The Weekly Snapshot

20 December

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

Global equity markets finished the week lower, with the S&P 500 Index in the US down 1.9%. Technology stocks were hardest hit, with the tech-laden NASDAQ 100 Index down 3.0%.

New Zealand and Australian shares fared better, but still finished the week down, with the NZX50 Index and the ASX 200 Index down 0.6% and 0.7% respectively.

Share markets drifted lower ahead of key central bank meetings during the week, including at the US Federal Reserve, the Bank of England and the European Central Bank. While share markets enjoyed a brief relief rally following these meetings, they again fell on Friday on renewed concerns about the spread of the Omicron variant of COVID-19.

Bond markets fared better. The yield on the US 10-year government bond fell 9 basis point to 1.40%, while the equivalent bond in New Zealand saw its yield fall by 15 basis points to 2.27%. When bond yields decline, their prices go up.

What's happening in markets

Last week's big event was in the US, where in a widely-anticipated move, the US Federal Reserve announced it will cut back its stimulus programme at a faster rate than planned – in response to inflationary pressures. In November it had said that it would be tapering (reducing) its $120bn-a-month bond buying programme by $15b a month. However, with inflation at a 40-year high, last week it advised that it would double the pace of tapering – to $30bn a month. That change opens the possibility of a rate hike as early as March 2022. At the same time, the 'dot plot' of projected interest rate rises showed that the majority of its interest rate-setting committee expects three increases in interest rates next year.

In other central bank news, the Bank of England raised interest rates in the UK for the first time in three years, as it too attempts to tackle a surge in inflation. Its move followed data during the week which showed that inflation there was running at a 10-year high. The Bank of England raised interest rates by 15 basis points, from 0.10% to 0.25%. The interest rate rise comes at the same time as its committee voted to maintain its bond-buying programme at its existing rate. Its move came despite fears that the Omicron variant could slow the economy – as the number of cases there surge to 90,000 a day – the highest daily rate in the country since the start of the pandemic.

Meanwhile, the European Central Bank struck a more dovish tone. While it too has trimmed back its bond buying programme, it vowed to keep monetary policy accommodative through 2022 and beyond.

While all three central banks suggest a slow withdrawal of stimulatory monetary policy, markets reacted positively to the decisions – as they were largely in line with expectations and they removed some of the uncertainty that had been hanging over markets.

In other news

Beyond central banks, the growth picture into year-end is facing two competing forces of a momentum lift from the Q3 deceleration and the new headwinds from the Omicron variant.

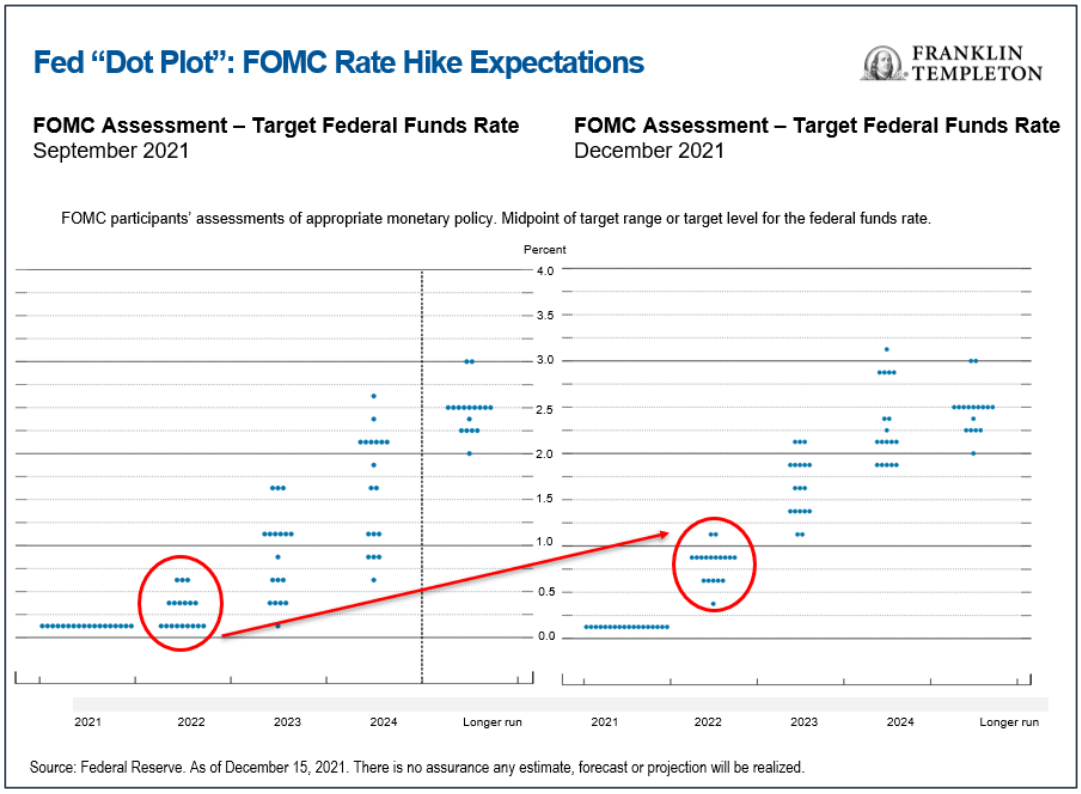
New Zealand Gross Domestic Product (GDP) fell 3.7% in the third quarter, less than expected. However, it should be noted that the quarterly fall captures six weeks of COVID-19 restrictions, which started on August 17. It followed a 2.8% rise in the previous quarter.

Regarding Omicron, the World Health Organisation reported over the weekend that the variant has now been detected in 89 countries, and COVID-19 cases involving the variant are doubling every 1.5 to 3 days in places with community transmission.

The UK recorded its highest number of daily COVID-19 cases since the pandemic began. In response, the French government has blocked entry to UK tourists. Elsewhere, the Netherlands has gone into a strict lockdown for at least three weeks – closing down all non-essential stores, bars, restaurants, schools and universities. The re-imposition of restrictions could weigh on risk sentiment as a further rise in case numbers across the northern hemispheres seem likely over their winter months.

Chart of the week

The US Federal Reserve quarterly 'dot-plot' is closely watched by investors to gauge the potential future path of interest rates. At its September meeting, only half of its members expected interest rates to rise in 2022, but now all of its member expect them to be higher next year.



Want to understand how to read the Fed's 'dot-plot'. Check out this explainer: https://www.thebalance.com/what-is-the-fed-dot-plot-416891