

The Weekly Snapshot

6 December

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

It was another week of heightened volatility in equity markets, which saw big swings in most of the major indices. It comes on the back of continued uncertainty following the discovery of the Omicron variant of COVID-19 (and subsequent declaration as being a 'variant of concern' by the World Health Organisation), with cases now having been discovered in almost 40 countries.

Equity markets bounced around, given conflicting messages about Omicron's transmissibility, the severity of cases and questionmarks as to whether existing vaccines would be effective against it. The VIX Index, which measures market volatility, rose a further 2 points to 31, having jumped by over 10 points in the previous week.

In the US, the S&P 500 Index finished down 1.2%, while the tech-focused NASDAQ Index shed 2.6%. European markets were hardest hit, with the region already suffering from a fourth wave of infections, which has resulted in further enforced lockdowns in some countries and moves by some Governments to mandate vaccination requirements on their citizens.

Unsurprisingly, those companies most likely to be affected by the virus were amongst the worst performers, including airlines, and hotels. Other economically-sensitive assets, such as oil, also finished lower, as investors worried about what Omicron may mean for the global economic reopening that was well underway. New Zealand shares were not immune from the volatility, but somehow managed to finish the week marginally higher, with the NZX 50 Index up 0.6%.

While share markets trended lower, there was a scramble for safe-haven assets, such as bonds, gold and certain currencies (the Japanese yen for example). Bond yields fell (and their prices rose), with the yield on the US 10-year bond falling 12 basis points over the week to finish at 1.36%.

What else was happening in markets?

The equity market falls also followed remarks by the chairman of the US Federal Reserve, Jerome Powell, who suggested that the emergence of the new Omicron variant would likely worsen the uncertainty around the economic recovery and inflation.

He also said that he felt it was time to retire the term 'transitory' in reference to inflation. The central bank had used this term to suggest that inflation would be short-lived, but his comments are an acknowledgement that they now believe inflation might be here to stay. Powell went as far as suggesting that the central bank should consider tapering their bond purchases (part of its emergency stimulus plan) at a faster rate, thereby paving the way for future interest rate increases.

Staying in the US, there was a weaker than expected jobs report which showed the smallest gain in jobs growth this year. The economy added another 210,000 jobs in November, well down on the 573,000 that was expected. That being said, the economy has still added over 6 million jobs this year, and the unemployment rate fell to 4.2%, a new low post emergence of the pandemic.

Meanwhile, in New Zealand, business confidence became more pessimistic in October. Headline business confidence fell to -16.4%, from -13.4% in the previous month. Inflation and cost expectations remain sky high, and profit expectations have dipped amid the tough economic environment. The 'own activity' outlook also fell – as costs are rising and firms are less confident they'll be able to maintain margins.

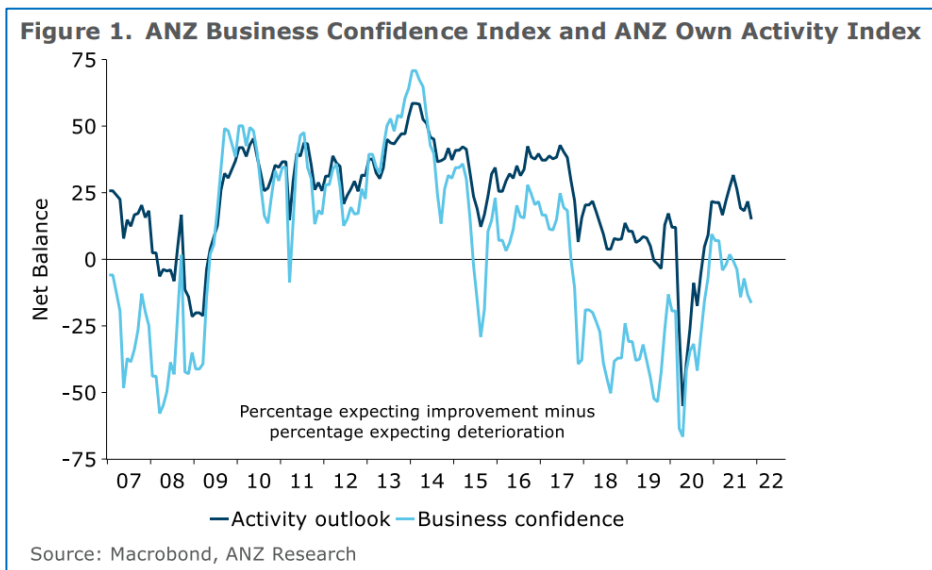
What's on the calendar

As well as investors watching out for further developments on the Omicron front, the key piece of data to watch this week will be US CPI (Consumer Price Index) data, with inflation expected to have moved even higher in November. If this proves to be the case, this will keep pressure on the US Federal Reserve to deliver swifter policy tightening. Last month's inflation number was the highest rate in over 30 years.

Elsewhere a number of central banks are due to hold policy meetings. A key one will be the Bank of Canada, which surprised last month when it brought to an end its bond-buying stimulus programme and hinted that interest rate increase may need to be brought forward.

Closer to home, eyes will also be on the Reserve Bank of Australia. Last month it abandoned its 'Yield Curve Control Program', which aimed to help keep interest rates low. However, with domestic inflation also on the rise, investors will be interested to understand if it's prepared to wind back its emergency stimulus setting faster than expected.

Chart of the week



An extract from the ANZ New Zealand Business Outlook:

It's an uncertain time for the New Zealand economy. COVID is about to spread throughout new regions, the housing market has turned, and interest rates have risen sharply. And now the global COVID situation has taken a turn as well with the uncertain implications of the new Omicron variant. Costs are rising and firms aren't confident they'll be able to maintain their profit margins.

But in the bigger picture, demand is solid with jobs plentiful, Auckland is nearly out of lockdown, and there's a plan to reopen the border, as long as the new variant doesn't turn out to be a game changer. The Delta outbreak, meanwhile, hasn't exploded, hospital systems have coped, and New Zealand has achieved impressive rates of vaccination with hopefully more to come. It's a mixed bag, yes, but overall things are still ticking along pretty well. Here's hoping COVID doesn't throw a curve ball.

Full copy of the report available here: <https://www.anz.co.nz/about-us/economic-markets-research/business-outlook/>

Here's what we're reading

Inflation is causing hardship for 45% of US households. With inflation data out this week and the US Federal Reserve meeting the following week, the result from this recent Gallup poll suggests that some households are doing in tough. <https://news.gallup.com/poll/357731/inflation-causing-hardship-households.aspx>

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