The Weekly Snapshot

14 February

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

Volatility remained high in financial markets last week. Following an initial rally, global share markets retreated once more on the back of a red-hot US inflation reading. Most major indices finished the week lower. In the US, the S&P 500 and NASDAQ 100 Indices – both having been at one point over 2% higher – finished the week down 1.8% and 2.2% respectively.

The local share market took its direction from overseas markets, with the NZX 50 Index also ending the week down, losing 0.4%.

It was also an up and down week for fixed interest markets. The US inflation reading raised the likelihood of US Federal Reserve ('the Fed') rate rises in the US, and against this backdrop the yield on the US 10-year government bond rose above the 2% level for the first time in two and a half years, to a high of 2.03% (that's over 50 basis points higher than where it started the year). That said, yields fell back on Friday, finishing the week only 3 basis points higher, at 1.94%.

What's happening in markets

Share markets had started the week in positive fashion, thanks to some strong corporate earnings announcements, and as political talks across Europe initially appeared to be helping to de-escalate tensions between Russia and Ukraine.

However, as expected, January's US inflation data was the key focus of markets during the week. In the event, prices rose by more than expected, up 7.5% over the year. It's the highest rate of inflation since 1982. Over the month, prices rose 0.9%.

Inflation in the US has been driven higher by soaring demand and a lack of supply caused by COVID-19's impact on global trade. Price rises for food, electricity and shelter (i.e. rents) were the largest contributors to the increase. The food index component rose 0.9% in January (compared to 0.5% in the previous month), while the energy index component rose 0.9% also. Even after stripping out these two volatile sectors, inflation climbed by 6.0% over the year. A shortage of used cars also continued to drive inflation higher (used cars are 40% higher than a year ago).

This reading all but confirms that US interest rates will move higher at the next meeting of the Fed in March. However, one of the committee members added further fuel to the fire by suggesting that he would support a 50 basis point move to kick things off. While he was only one of many to air their views, markets jumped on the comments.

As a result, bond yields continued to move higher, with the yield on the US 10-year government bond moving above 2.00% for the first time in two and a half years, although finishing the week only 3 basis points higher than where they stared. Shorter-dated bonds bore the brunt of the sell-off however, with 2-year bond yields up 20 basis points. New Zealand bond yields moved higher also, with the 10-year government bond yield up 21 basis points, their highest level in almost four years.

What's on the calendar

In the US, one focus will likely be on the release of the minutes from the last meeting of the Fed (held in late January 2022) for any clues as to the future path of interest rates, while any chatter from committee members this week will no doubt also draw interest.

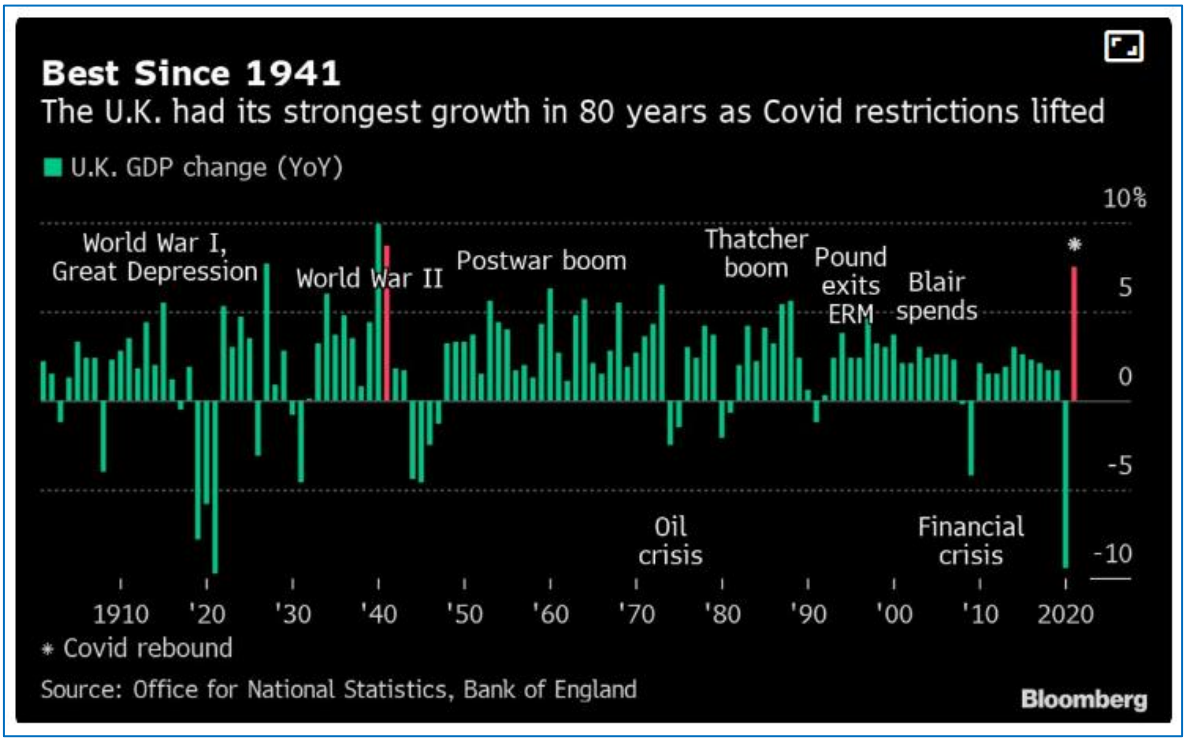
In Europe, the key data will be Eurozone industrial production, as well as German and Eurozone-wide economic sentiment, while in the UK the focus will be on unemployment and retail sales data.

At home, it's a fairly quiet week on the economic data front, however, all eyes will be on the daily COVID-19 infection numbers. The most recent data showed an almost doubling of daily cases – with New Zealand poised to move into 'Phase two' of its Omicron response plan this week.

Finally, the ongoing saga on the Russia-Ukraine border will continue to garner attention, with tensions showing no signs of easing, as the US, UK, and Germany are amongst several countries that urged their nationals to leave Ukraine immediately.

Chart of the week

The UK economy expanded last year at the fastest pace since World War II. The 7.5% expansion was the largest since 1941 and made the UK the fastest-growing advanced economy in 2021.



Here’s what we’re reading

With all the talk about inflation, here’s a quick brush up on why it’s relevant for investors.
https://global.pimco.com/en-gbl/resources/education/understanding-inflation