The Weekly Snapshot

21 February

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

It was another volatile week for global equity markets, which eventually ended mostly lower, as recent themes around geopolitics and monetary policy continued to drive sentiment. In the US, the S&P 500 and NASDAQ 100 finished lower for the second straight week, both finishing down around 1.5%, while the domestic NZX 50 also recorded its second consecutive weekly decline, falling around 0.3%.

Australian equities bucked the trend, with the ASX 200 finishing the week higher, thanks in part to some stock-specific performance, including a strong half-year earnings report from biotech firm CSL Limited, which saw its shares rise more than 5%.

In fixed interest, geopolitical uncertainty saw US bonds in demand, however, expectations of central bank rate hikes saw gains limited.

What's happening in markets

Geopolitical tensions continued to dominate the headlines with back and forth claims from Russia and the west about events taking place at the border. Despite claims from Russia it had begun a partial troop pullback from the Ukraine border, most western nations debunked this, saying in fact numbers continue to grow with troops nearing 200,000.

And as the week went on, conflict appeared more likely, with US President Joe Biden saying Vladimir Putin, has "made the decision" to invade Ukraine in the coming days. And in the UK, Prime Minister Boris Johnson said UK intelligence shows that conflict between Moscow and Kyiv looks "increasingly likely".

The rising geopolitical tension saw interest rate markets scale back the probability of a 50 basis point hike by the US Federal Reserve in March. According to data from CME Group, the probability is around 35%, down from nearly 50% a week ago.

Nevertheless, St. Louis Federal Reserve President James Bullard, a noted policy hawk, said the Fed needs to raise the fed funds rate by a full percentage point by July, saying "this could get out of control," when speaking about inflation.

In amongst all the volatility, there was some strong economic data with retail sales figures showing US consumers have not stopped spending despite decade-high inflation. For January, retail sales rose 3.5%, led by a surge in online shopping, while furniture and motor vehicle sectors continued to grow. UK retail sales also topped expectations with a 1.9% increase in January, also driven by increased spending on household goods.

Meanwhile, Australian employment figures came in close to consensus, with unemployment holding at a 13-year low of 4.2%. However, the Omicron variant saw hourly employment falling 8.8% on a seasonally adjusted basis.

What's on the calendar

On an international level, the Russia-Ukraine situation will certainly dominate sentiment this week, with any escalation from Russia likely to spark another round of volatility.

Given this, economic data out of the US and Europe, which includes US, UK and eurozone PMI numbers, US Q4 GDP (second reading) and US consumer confidence, will likely take a back seat.

However, it's a big week down under with the Reserve Bank of New Zealand set to raise the Official Cash Rate by 25 basis points to 1%. However, there is an outside probability of a 50 basis point hike, especially given it's been three months between meetings. Other aspects the RBNZ will be mulling when deciding between 25bp or 50bp is evidence of a slowdown in the housing market, red-hot inflation and the Omicron outbreak.

Finally, earnings season is slowing down, but bricks and mortar companies Home Depot and Macy's will garner some attention.

Chart of the week

With the US Federal Reserve set to embark on a tightening cycle, here's some historical data on how stocks perform from a first rate hike to the last – and vice versa.

Rate Cut Cycle Start	Rate Cut Cycle End	DJIA	S&P 500	Nasdaq Composite
5/31/1989	2/3/1994	60.0%	50.0%	78.8%
7/5/1995	3/24/1997	49.6%	44.5%	31.9%
9/28/1998	6/29/1999	33.4%	28.9%	51.9%
1/2/2001	6/29/2004	-2.2%	-11.5%	-11.2%
9/17/2007	12/15/2008	-36.1%	-41.2%	-41.6%
7/31/2019	1/14/2022*	33.5%	56.2%	81.9%
Average %		23.0%	21.2%	32.0%
Median %		33.4%	36.7%	41.9%
Source: Dow Jones Market Data				

Rate Hike Cycle Start	Rate Hike Cycle End	DJIA	S&P 500	Nasdaq Composite
2/3/1994	7/5/1995	16.3%	13.8%	18.1%
3/24/1997	9/28/1998	17.4%	32.6%	40.0%
6/29/1999	1/2/2001	-1.6%	-5.0%	-13.3%
6/29/2004	9/17/2007	28.7%	30.0%	26.9%
12/15/2008	7/31/2019	213.7%	243.1%	442.0%
Average %		54.9%	62.9%	102.7%
Median %		17.4%	30.0%	26.9%
Source: Dow Jones Market Data				

Here's what we're reading

Employment market: "By most measures, the U.S. job market isn't simply hot, it's arguably the greatest sellers' market for labor in decades, if not ever" - https://theovershoot.co/p/the-us-job-market-is-hot?utm_source=url

After the fact: Food compensation (eating after exercising) and investing have a lot in common - https://www.collaborativefund.com/blog/after-the-fact/