# The Weekly Snapshot

## 26 July

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

Global share markets started last week on the back foot, falling sharply on Monday as concerns around the spread of the COVID-19 delta variant threatened to derail the global economic recovery story. Shares in the US were hardest hit, falling 3% at one point, with other major share markets following suit.

However, global share markets quickly reversed direction, regaining their lost ground thanks to some strong company earnings results, which saw the S&P 500 Index and NASDAQ Index back at record highs.

**COVID-19 delta variant spreading fast in the US, UK and Europe**

The spread of the delta variant across those countries that have pushed ahead with reopening plans has been a particular focus for markets. Last Monday was 'Freedom Day' in the UK, with the nation lifting most of its remaining COVID-19 restrictions; masks are no longer required, work-from-home guidance has ended and social distancing rules do not apply any more.

However, the easing of restrictions has come amid skyrocketing case numbers. New daily cases have jumped to around 50,000 (up from around 2,000 a day in early May). It's a similar story in the US, with all 50 states having recorded a similar surge in cases as in the UK – and in Europe too.

While high levels of vaccination in these countries has helped break the link between new cases and hospitalisations/deaths, the rapid rise in cases (particularly amongst the non-vaccinated, younger generations) is making investors nervous that the headwinds from COVID-19 could linger for longer.

**Strong Q2 earnings were supportive of the turnaround in share markets**

Helping shares to recoup Monday's losses were upbeat results from the latest corporate earnings season in the US. With results in from around a fifth of S&P 500 companies, the majority (around 85%) have beaten expectations. Revenue growth is also strong, being 4% ahead of expectations. Results from European companies have shown a similar picture. This has helped to provide broad-based support for share markets.

**Global bond markets trended sideways**

Global bonds initially found support given a flight to safety on the back of sharply declining share markets. The yield on the US government 10-year bond fell to a five-month low of 1.13%, but it has since tracked back higher.

Elsewhere the European Central Bank (ECB) pledged to keep interest rates at record lows for even longer in order to boost sluggish inflation, much to the market's relief. It also maintained to keep its monetary stimulus (through its bond purchases) unchanged, and said that it would now tolerate inflation above 2%; this comes a week after it established a new inflation target of 2%, previously "just below" 2%.

**In other news**

- The number of Americans filing initial (new) claims for unemployment rose to a two-month high. New claims rose by 51,000 to 419,000. The delta variant is being blamed for this, with those states that have low vaccination rates being the worst affected. However, continuing claims (those who have already filed an initial claim) continue to decline, reflecting a combination of rising employment and stricter eligibility requirements in many states.
- The US and its allies (including the UK, European Union, Australia, Canada, Japan and New Zealand) accused the Chinese government of state-sponsored cyberattacks earlier this year, including that of Microsoft Exchange – a popular email platform used by companies worldwide. China denied the allegations, but the accusations were unsettling for markets nonetheless.

**Closer to home: Trans-Tasman Travel Bubble on pause**

Over half of all Australians are now in lockdown, following a spike in COVID-19 infection rates in New South Wales and Victoria, and as South Australia also announced a snap lockdown. We expect the ongoing situation to have a significant impact on the country's GDP growth, with recent data showing that retail and credit card spending has already taken a hit.

Against this backdrop, the New Zealand government has hit pause on the Trans-Tasman Travel Bubble, for a period of 8 weeks. This is likely to have a flow-on impact to New Zealand businesses – especially those in the travel and tourism sectors.

**What's on the calendar**

A key focus for markets this week is the Federal Open Markets Committee (FOMC) meeting, and Thursday's report of second quarter Gross Domestic Product (GDP). The US Federal Reserve's interest rate-setting committee isn't expected to make any changes, but investors will no doubt be watching for any clues on when this key central bank may begin tapering its bond purchases.

Other than that, it's another big week for reporting, with 260 more S&P 500 companies due to report, including Apple, Microsoft and Alphabet.

**Chart of the week**

A year after COVID-19 first disrupted global supply chains, shipping headaches are delaying exports globally. This is having flow-on effects on global manufacturing, construction, and is ultimately threatening higher prices for consumers. The cost of shipping a container of goods has risen exponentially and has nearly tripled (if not quadrupled on some routes).

It's not just the threat of imported inflation. The last year has been tough for some of New Zealand's smaller exporters, and it seems that getting goods offshore will continue to be a struggle.

One particular issue is the build-up of empty shipping containers. Such is the demand for empty containers overseas that containers of low-value agricultural product are *less valuable* for shipping companies to carry than empty containers alone.