The Weekly Snapshot

4 July

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

Equity markets fell last week, unable to capitalise on the momentum from the prior week, as ongoing concerns about inflation and the broader economy saw the S&P 500 and NASDAQ 100 record their 11th weekly decline in the past 13 weeks.

As the focus shifted to the deteriorating outlook for growth and spending, there was some safe haven demand, which saw bond markets make some gains, as yields drifted off multi-year highs. The yield on the US 10-year government bond yield fell below 3%, more than 50 basis points off its recent high.

What's happening in markets

The first half of the year came to a close last week, and for financial markets, it was the worst six months for several benchmarks and asset classes in many decades. The large-cap S&P 500 ended the six-month period down more than 20%, its worst six months to a calendar year since 1970, while the Dow Jones Industrial Average recorded its worst period since 1962.

However, if history is anything to go by, then the second half of the year should look a little brighter. According to data from Dow Jones, when the S&P 500 has ended the first six months of a calendar year down more than 15%, it has recorded gains in the second half every time – although the sample size is relatively small.

Year	2nd Half % Change
1970	26.51
1962	15.25
1940	6.01
1939	15.01
1932	55.53
Average	**23.66**
Median	**15.25**
% Positive	**100.0%**

Last week, economic data – both domestic and international –showed further signs that the post-COVID economic rebound may be running out of steam. One theme continues to be sentiment, with the US Conference Board consumer confidence index falling to a 16-month low of 98.7 as Americans' concerns around rising prices worsened. While closer to home, the ANZ Business Outlook Survey, and Roy Morgan Consumer Confidence reports both fell, and both echoed similar concerns around inflation and the economic outlook.

In Europe, inflation rose to a new all-time high, with consumer prices rising 8.6% in June as the war in Ukraine continues to push up the cost of living across the continent.

Exacerbating worries, US Fed Chair Jerome Powell said at a European Central Bank forum that there was no guarantee the central bank can achieve a soft landing for the economy – widely described as raising interest rates just enough to slow the economy and rein in inflation without causing a recession and raising unemployment. "The pathways have gotten narrower", he said, regarding the Fed's ability to engineer the soft landing.

There was some positive news, with US durable goods rising at a faster pace than expected, and US pending home sales rebounding.

What's on the calendar

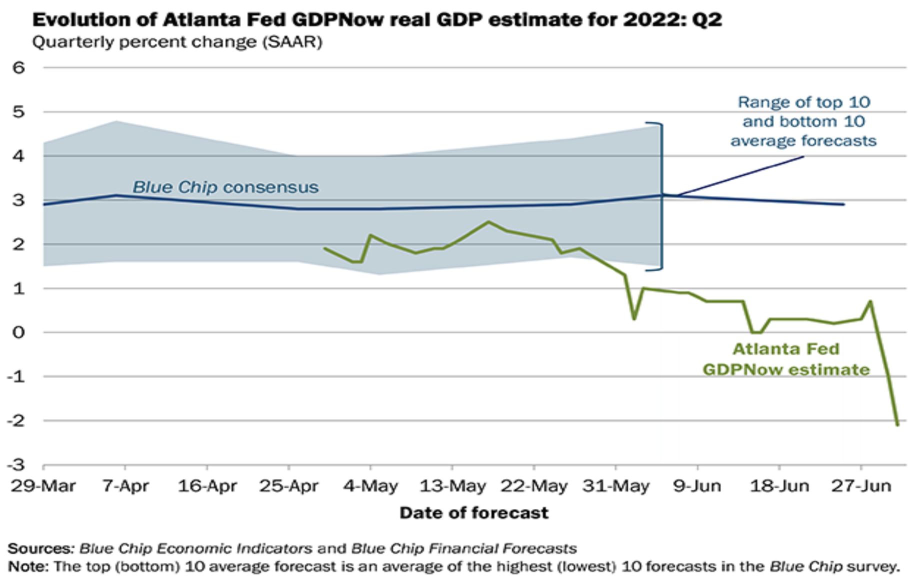
It's a shortened week in the US with financial markets closed Monday for Independence Day. Nevertheless, it's still a busy one with the release of the minutes from the Fed's June meeting and the always important employment report for June.

The Fed minutes will be watched for the signs that tipped policymakers from a widely-expected 50 basis point hike a week or so before the meeting to a 75 basis point hike. Meanwhile, with all the talk of a recession, the labour market remains the pillar of the economy, with unemployment at record lows and job openings still high. So if there is any surprise on the downside, it could strengthen the view that the economy is slowing across the board.

Down under, the Reserve Bank of Australia is expected to raise its cash rate by around 50 basis points on Tuesday, as it sees inflation concerns mounting, while in New Zealand, more sentiment data is scheduled with the Q2 NZIER Business Confidence report out Tuesday too.

Chart of the week

With all the chatter about an imminent recession, the Atlanta Fed's GDPNow tracker expects the economy contracted in the second quarter, which would mean the US entered a recession, which is defined by two consecutive quarterly declines in growth.



Here's what we're reading

If the US economy does enter a recession, households have never been in a better shape prior to a recession - https://awealthofcommonsense.com/2022/06/has-the-consumer-ever-been-more-prepared-for-a-recession/

Who is to blame for inflation? - https://ritholtz.com/2022/06/inflation-blame-15/

If we have seen the low in interest rates, was it a wasted opportunity for governments to borrow and invest in projects such as housing and infrastructure - https://www.theatlantic.com/ideas/archive/2022/06/us-economy-suffering-infrastructure-energy-housing/661389/