The Weekly Snapshot

21 March

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

Equity markets halted their recent slide last week, with several global indices recording their best weekly gains since November 2020. In the US, the S&P 500 rose more than 5%, while the NASDAQ 100, which had been one of the worst-performing major indices of 2022, rose more than 8%. The rally was helped in part by a decline in volatility with the Fed providing clarity around the path of interest rates.

Domestic equities also ended higher, but gains were more limited, with the NZX 50 rising around 3%, erasing the prior week's losses.

Meanwhile, bond yields rose sharply after the US Federal Reserve raised interest rates for the first time in nearly four years with the US 10-year government bond yield trading above 2.20% for the first time since 2019.

What's happening in markets

For the first time in a while, investors had more to watch than the war in Ukraine, with the much-anticipated Federal Reserve meeting on Wednesday, where the central bank raised the fed funds rate by 25 basis points and signalled it expects around six more hikes in 2022.

Once again, inflation remained the dominant issue, with the Fed acknowledging that it remains stubbornly high, saying the price rises reflect "supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures". In a follow-up press conference, Fed Chair Jerome Powell said the committee still expects to see inflation return to 2%, but said the comeback would likely take longer than initially expected. The committee projects core PCE inflation of 4.3% in 2022, up from 2.6% in December.

On the tight labour market, Powell dismissed the notion that there is a wage-price spiral, which can often be a precursor to persistent inflation as workers demand higher wages to pay for more expensive goods and services. However, he did concede there is a "misalignment" of supply and demand in the labour market.

The lone dissenter in the decision to raise 25 basis points was St. Louis Fed President James Bullard who advocated for a 50 basis point hike. And on Friday, Bullard said in a statement the Fed is risking "losing credibility" on its inflation target.

Meanwhile, down under, economic data showed the New Zealand economy grew at 3% in the final quarter of 2021, a bounce back from the 3.6% fall in the prior quarter, but below most forecasts. The easing of COVID-19 restrictions saw the service industries (in particular the business service industry) the biggest contributor to the rise in GDP, increasing by 2.5%. The worse-than-expected growth number saw the probability of a 50 basis point hike by the Reserve Bank of New Zealand in April fall slightly to around 50%.

What's on the calendar

After a busy week, things quieten down a little, but there is still plenty to keep an eye on. More central banks meet this week, where they too are feeling the effects of supply chain disruptions. Of note, are the Swiss National Bank and the Norges Bank (Norway's central bank).

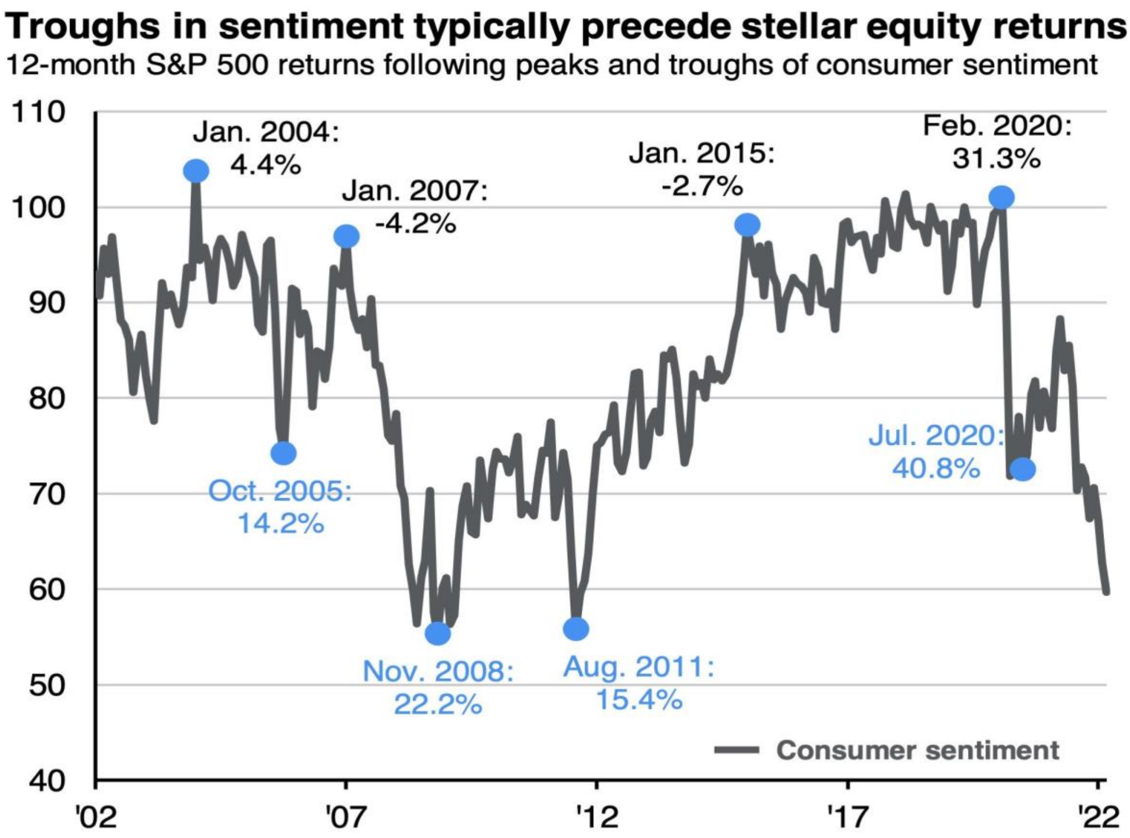
The SNB is expected to leave rates unchanged, with inflation mostly under control and its currency continuing to appreciate versus some of its major trading partners – the UK and the eurozone (euro) – making an interest rate rise even more challenging for its export sector. Meanwhile, the Norges Bank is expected to raise its key rate, and like the Federal Reserve, revise up its interest rate path.

In economic data, PMI data in Europe and the US will indicate how tight financial conditions are and the pressure it is putting on the manufacturing industries. In Australasia, it's a quiet week both in New Zealand and Australia.

Finally, the COVID-19 outbreak in China is becoming a concern, with reports of more than 50 million people in lockdown, raising fears of further disruptions to global supply chains.

Chart of the week

Sentiment can sometimes be one of the best indicators, and it's usually a contrarian one. With confidence done, are we in for a sustained rally?



Source: JPMorgan

Here's what we're reading

"The Fed cannot ease pandemic related supply constraints (except by curbing demand), and the Fed cannot stop the war. So, there is a possibility that the Fed will tighten too much and that will lead to a "hard landing" (aka recession)" - https://www.calculatedriskblog.com/2022/03/predicting-next-recession.html

How a wrinkle in the oil futures market has clogged America's oil pump - https://www.npr.org/sections/money/2022/03/01/1083415798/how-a-wrinkle-in-the-oil-futures-market-has-clogged-americas-oil-pump

Neel Kashkari, president of the Federal Reserve Bank of Minneapolis, on why he got inflation wrong - https://medium.com/@neelkashkari/update-on-inflation-and-monetary-policy-c907a62e7460