# The Weekly Snapshot

## 28 March

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

Global equity markets were higher last week, while global bonds markets came under pressure from the prospect of a faster-than-expected tightening in monetary policy.

In the US, the key S&P 500 Index and the tech-heavy NASDAQ Index gained 1.8% and 2.0% respectively, as investors came to terms with the idea that interest rates were now heading higher following the recent move by the US Federal Reserve to begin raising interest rates in this key economy. It means the S&P 500 Index is now up 9.2% from its mid-March lows.

Share markets elsewhere delivered more mixed performances. One of the strongest performers was the Japanese market, with the Nikkei 225 Index up around 4.8% on the back of some year-end positioning and demand for export-oriented companies given yen currency weakness. The Australian share market was another strong performer, with the ASX 200 index up 1.8%, benefiting from the ups (mainly) and downs of global commodity prices.

Weaker performers were European shares, with Germany's DAX Index down 0.4%, while New Zealand shares fell 0.6%, largely on the back of a decline in Fisher & Paykel Healthcare, as the company downgraded its revenue outlook.

However, bond markets saw the most action last week. The yield on the US 10-year benchmark bond rose 33 basis points over the week to 2.48%, and at one point even rose above the 2.50% level – the first time since mid-2019. This comes on the back of growing expectations that the US Federal Reserve may make more aggressive moves in order to get on top of inflation. New Zealand bonds took their lead from overseas markets, with the yield on the equivalent 10-year benchmark up 13 basis points to 3.30%.

**What else is happening in markets?**

Given the backdrop of very high inflation and a strong labour market in the US, there is clearly a lot of pressure on the US Federal Reserve to return interest rates to more normal levels – and this is having a negative impact on bond markets. Generally, bonds struggle when interest rates are rising.

Last week, comments from US Federal Reserve Chair, Jerome Powell, raised the odds of a 50 basis point hike at its next meeting in May. In a speech titled 'Restoring Price Stability' to the National Association for Business Economics, he said that getting on top of inflation was a priority for the central bank in 2022, and that the Ukraine-Russia war risked pushing inflation expectations too high.

Specifically, he said: *"If we conclude that it is appropriate to move more aggressively by raising the federal funds rate by more than 25 basis points at a meeting or meetings, we will do so."*

On the back of this (and similar comments from other committee members), some major global banks moved to forecast back-to-back 50 basis points increases at future meetings of the US Federal Reserve, thereby sending bond markets lower. Surprisingly, share markets proved somewhat more resilient, preferring instead to believe the rhetoric that the US Federal Reserve would get on top of inflation – and thanks to some better-than-expected Purchasing Managers' Index data for March.

Elsewhere, UK inflation data showed that consumer prices rose 6.2% in February, the highest level in 30 years, keeping pressure on its central bank to raise interest rates further. And in Europe, Eurozone consumer confidence fell to its lowest level in almost two years in March, as concerns over the war in Ukraine and the increasing cost of living affect sentiment.

**What's on the calendar**

The main event, other than ongoing geopolitics around Ukraine-Russia, is US nonfarm payrolls data, due on Friday – which will set out the current state of the labour market (and is something that is closely watched by policymakers there). Meanwhile, in Europe, investors will be looking at Eurozone inflation data, where another surge in consumer prices is expected to test support for riskier assets.

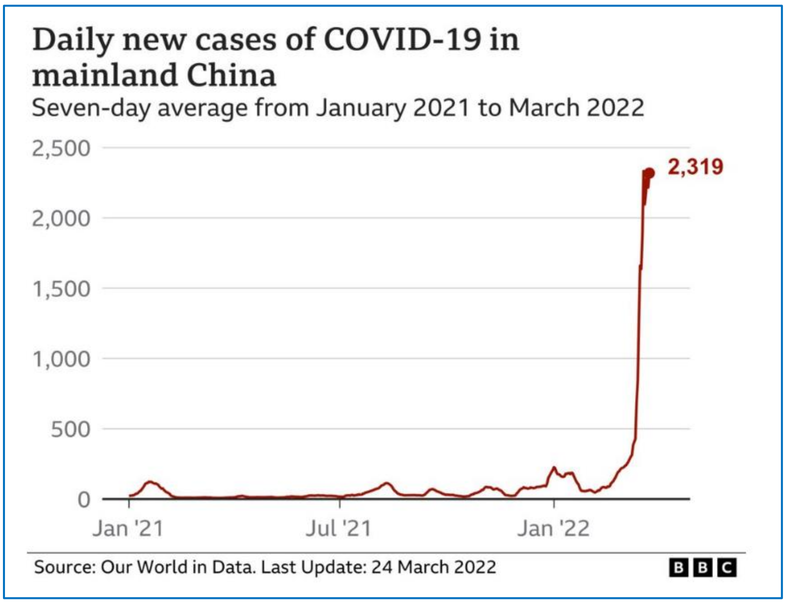
The main event at home will the business confidence as measured by the ANZ Business Outlook, with expectations that headline confidence will have taken a hit from the ongoing Omicron outbreak.

**Chart of the week**

China's zero-Covid policy has been among the strictest approaches to tackling the pandemic anywhere in the world, but there has been a recent surge in infection, driven by the Omicron variant. Millions in the entire north-eastern province of Jilin, and the tech-hub Shenzen in the south, are already in lockdown.

Now, China's financial hub of Shanghai (which has so far been relatively unscathed by the pandemic) says it will lock down the city in two stages to carry out Covid testing, after it reported a new daily record of cases. Some districts will be locked down for four days starting today, with the remainder starting their four-day period on 1 April. During this time, public transport will be suspended in each respective area, and unapproved vehicles will not be allowed on the roads. Authorities say that all companies and factories will suspend manufacturing.

The concern for investors is that any new restrictions brought about as it looks to tweak its zero-Covid policy could exacerbate global supply-chain disruptions further.




**Here's what we're reading**

*The worst run for bonds since 1980:* Michael Batnick looks at their recent performance, but argues that it's not all bad: https://theirrelevantinvestor.com/2022/03/20/the-worst-run-for-bonds-since-1980/