

The Weekly Snapshot

16 May

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

Despite a strong Friday session in the US, the equity market sell-off continued last week as inflation concerns lingered and fears of a recession came to the fore. Furthermore, the meltdown in some alternative assets added to the risk-off tone.

In the US, the S&P 500 recorded its sixth successive weekly decline, the longest streak in more than a decade, while the once high-flying NASDAQ 100 continued its sell-off, ending the week down nearly 3% - this after a 3.5% rally on Friday. The NASDAQ 100 is now down around 20% from its all-time high in November of last year.

New Zealand equities also struggled, with the NZX 50 declining more than 3%, hitting its lowest level since June 2020.

What's happening in markets

Investors were hoping the equity market sell-off may subside this week with many expecting a pullback in the year-on-year rate of inflation in the US. However, that was not to be, with US CPI coming in at 8.3%, and while it was slightly below last month's number, it was higher than most forecasts, meaning inflation remained near its highest level since 1982. The core CPI, which strips out volatile food and energy prices, rose 6.2%, which was also above expectations.

Despite the higher-than-expected inflation data, yields spent most of the week under pressure as bonds found some demand as investors sought out safe-haven assets. This demand came as concerns the US could be in a recession as rising prices, coupled with higher borrowing costs and ongoing supply chain issues dampen the economic outlook.

After touching a multi-year high at 3.2%, the US 10-year government bond yield finished the week around 2.90%.

Adding to the waning economic outlook was the preliminary result of the Michigan consumer sentiment survey, which fell to 59.1, a 10-year low with sentiment declining across the board.

"These declines were broad based--for current economic conditions as well as consumer expectations, and visible across income, age, education, geography, and political affiliation--continuing the general downward trend in sentiment over the past year" – Joanne Hsu, the [survey director said](#).

Elsewhere, in an interview with Marketplace on Thursday, Fed Chair Jerome Powell said it "would have been better for [the Fed] to have raised rates a little sooner". However, he did add that he wasn't sure if it would have made much of a difference.

It was a relatively quiet week in New Zealand, with many observers watching the New Zealand dollar, which continues to decline amid the risk-off tone. Last week, the kiwi hit its lowest level versus the US dollar in nearly two years, trading near 62 cents.

What's on the calendar

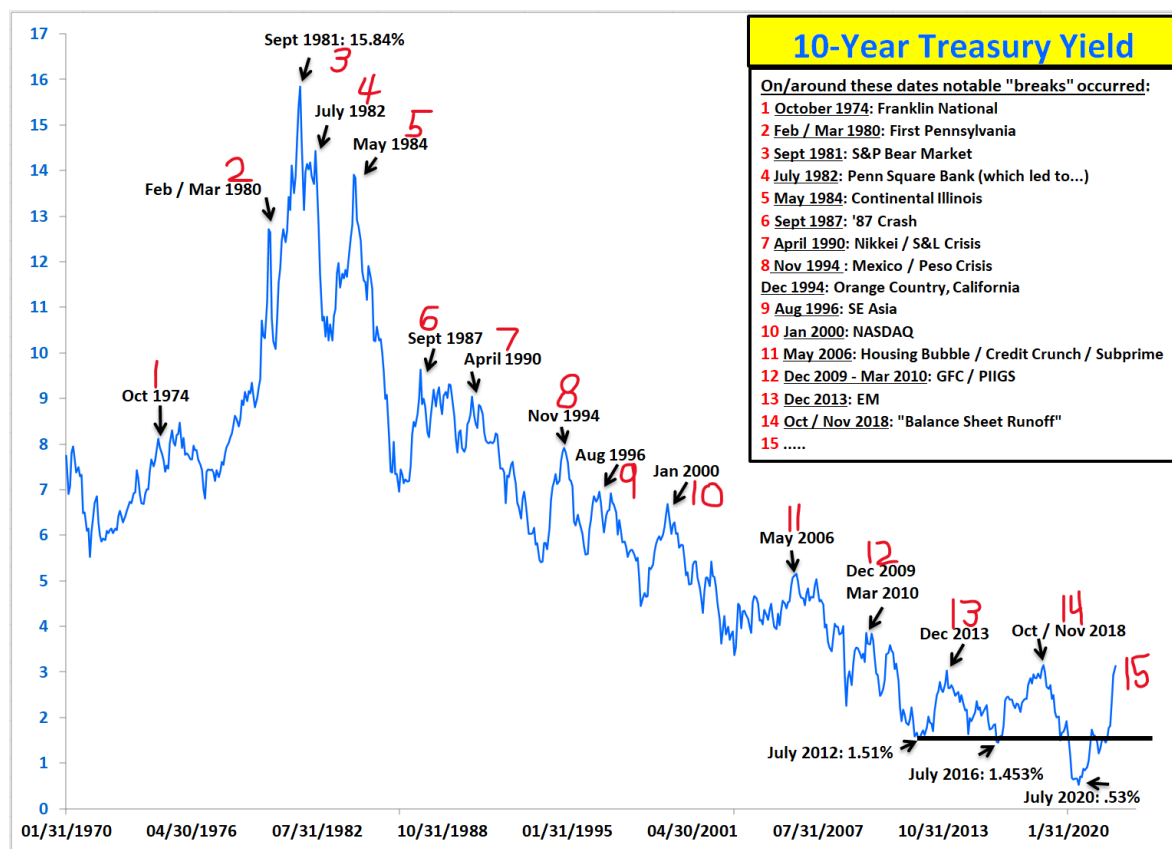
It's a big week on the fiscal calendar down under, with the Government delivering the 2022 Budget. It appears the total price tag will be around \$6 billion, with healthcare being a top priority. For financial markets, the key will be to watch any further direct stimulus, which could exacerbate the already above-average inflation.

In economic data, the US Philly Fed manufacturing index could be one to watch as the broader economic slowdown narrative continues to pick up. The index has been trending downwards since late last year, suggesting there is a contraction in the manufacturing industry already underway. Also in the US, retail sales are expected to show a small increase from the prior month.

Finally, in China, retail sales and industrial production figures will give a good indication of the impact the COVID lockdowns are having on the local economy.

Chart of the week

The history of the 10-year yield below shows that every tightening cycle saw some asset class break. Whether it was the 1987 crash, the house bubble beginning in 2006, or more recently, the Fed balance sheet run-off in 2018, monetary policy tightening cycles have caused some systemic issues – maybe this one is alternative assets/cryptocurrencies.



Source: 22V Research

Here's what we're reading

Coinbase, one of the largest cryptocurrency exchanges, delivered disappointing first-quarter earnings, but the most alarming thing may have been a sentence tucked away in the report: "The crypto assets we hold in custody on behalf of our customers could be subject to bankruptcy proceedings". -

<https://fortune.com/2022/05/11/coinbase-bankruptcy-crypto-assets-safe-private-key-earnings-stock/>

How inflation became America's greatest economic problem: A piece looking at inflation through the lenses of labour markets, politics, war, climate and geopolitics -

<https://www.grid.news/story/360/2022/05/11/how-inflation-became-americas-greatest-economic-problem/>

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