

The Weekly Snapshot

23 May

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

It was more of the same for equity markets last week with most indices ending lower as the outlook for growth worsened amid some downbeat economic data and poor earnings from two brick-and-mortar giants. The S&P 500 fell for the seventh consecutive week, its longest streak in more than 20 years, while the NASDAQ 100 ended down around 4%. In New Zealand, the NZX 50 outperformed most of its counterparts, ending the week up nearly 1%.

In interest rate markets, bonds continued their recent rebound, pushing yields lower as investors seemed to seek out safe haven assets, focusing more on the economic outlook over elevated inflation. For the week, the 10-year government bond yield in the US, New Zealand, and most European countries ended lower.

What's happening in markets

In New Zealand, the 2022 Budget was the highlight of the week with the Labour Government delivering an expected ~\$6 billion price tag for the year. The big winner was the healthcare sector, which will receive more than \$11 billion over the next four years, while drug-buyer Pharmac received a \$191 million boost. Elsewhere, the government signalled its attempt to tackle the cost-of-living crisis by extending the fuel excise tax cut and public transport subsidy, while more than 2 million New Zealanders will receive a \$350 direct payment.

However, despite the government's attempt to address inflation, the Treasury now expects inflation to run considerably higher than it previously thought (more than 5% in 2023) and downgraded real GDP, signs the economy could be in for a challenging period.

Overseas, the acceleration lower in stocks was in part to a significant sell-off in two of the biggest retailers, Walmart and Target, after they delivered disappointing first-quarter earnings. Target said its miss on earnings came amid unusually high costs, inventory issues, and lower-than-expected spending on discretionary items – a sign that the steam may be running out of the US economy. After the news, Target's share price fell around 25%. Meanwhile, it was much the same with Walmart that said cost pressures, notably from gas, were a significant contributor to the disappointing results, adding that rising food prices (grocery is Walmart's top sales category) saw consumers shop around for value. Shares in Walmart fell about 10% after the release of its earnings.

Elsewhere, some economic data also pointed to a potential slowdown in the US economy with the Philly Fed manufacturing index falling to 2.6, down from 17.6, while business conditions and the CAPEX index also fell sharply. However, there was some positive news, US April retail sales rising 0.9% from the month prior, driven by a 2.1% increase in online sales.

Finally, in politics, the Australian Labor Party defeated Scott Morrison's Coalition Party, meaning Anthony Albanese will be Australia's next prime minister. By late Sunday, the Labor Party had won 73 of the 151 seats, enough to form a coalition government.

What's on the calendar

It's a busy week in New Zealand, highlighted by the Reserve Bank of New Zealand meeting on Wednesday. The central bank is expected to raise the Official Cash Rate by 50 basis points to 2%, continuing its aggressive tightening to tame inflation.

While a 50 basis point hike is all but a done deal, the focus will be the update of the neutral rate. If the RBNZ sees inflation remaining stubbornly high, this could rise, which would see the market price in further hikes. On the other hand, the recent pickup in volatility, and fears of a growth slowdown could see them hold or even reduce this.

And on the local economic data calendar, first-quarter retail sales and the ANZ Roy Morgan Consumer Confidence survey will be closely watched to gauge the broader economic outlook.

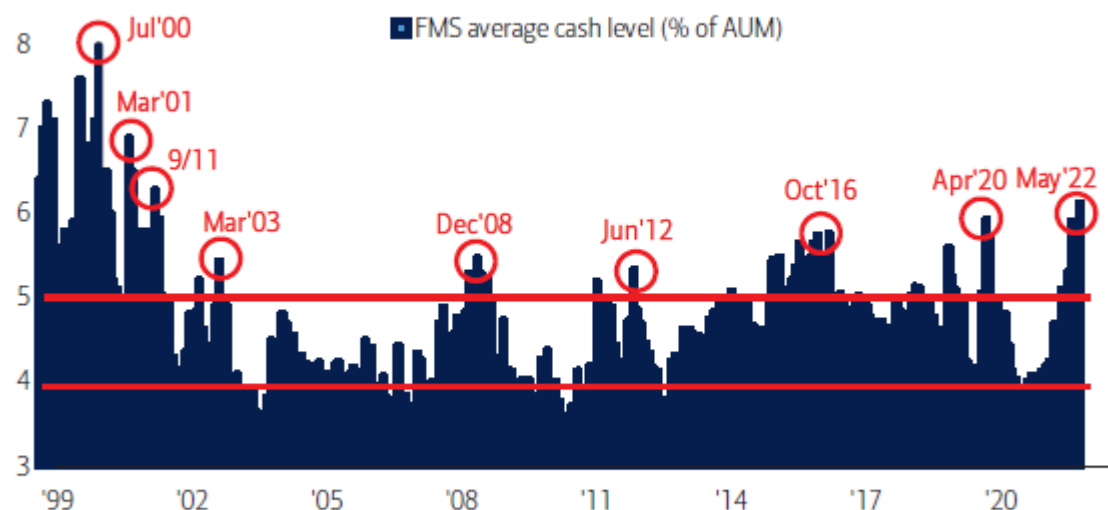
Overseas, the second reading of US Q1 GDP will be one to watch to see if the contraction, which could push the country into a recession, is confirmed. And finally, there's more inflation data to close out the week with April's Core PCE Price Index. This is important as it's the Fed's preferred measure of inflation because it strips out volatile food and energy prices.

Chart of the week

The recent volatility and decline in equity markets, has seen cash balances (per the Bank of America survey) reach their highest level since September 2001. High cash balances can be a sign investors are preferring defensive safe haven assets, expecting challenging times ahead.

Chart 1: FMS cash levels rise to highest since 9/11

FMS average cash balance, %



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Here's what we're reading

Many politicians, especially in the US, are citing corporate greed, the lack of regulation, and the need for price controls to slow inflation. A look into these theories -

<https://noahpinion.substack.com/p/greedflation-gouging-and-price-controls?s=r>

Is consumer sentiment a good contrarian indicator? - <https://ritholtz.com/2022/05/sentiment-lol/>

The housing shortage is a worldwide issue. What the US is doing to tackle their problem -

<https://fullstackeconomics.com/joe-biden-has-a-smart-plan-to-tackle-the-housing-shortage/>

How strict have the Chinese COVID lockdowns been? See this: No cars were sold in Shanghai in April -

<https://edition.cnn.com/2022/05/17/cars/shanghai-car-sales-zero-april-2022-intl-hnk/index.html>

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