# The Weekly Snapshot

## 30 May

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

Global equity markets staged somewhat of a rebound last week, with the S&P 500 Index, NASDAQ 100 Index and the Dow Jones Industrial Average in the US all up by over 6.0%. The S&P 500 Index and the NASDAQ 100 Index snapped a seven-week losing streak, while it had been eight weeks of losses for the Down Jones Industrial Average.

The shift in sentiment followed the release of the minutes from the last meeting of the US Federal Reserve (the Fed), while some strong earnings amongst US banks (which tend to benefit from higher interest rates) and retailer, Macy's, also helped.

In New Zealand however, the NZX 50 Index was down around 1.8%, with local shares underperforming their global counterparts as the Reserve Bank of New Zealand (RBNZ) raised interest rates for the fifth consecutive time.

In fixed interest markets, bond prices were higher, and bond yields lower. Bond yields have fallen markedly over the last few weeks as investors seek safe haven assets as they now worry that sustained inflationary pressures will weigh negatively on the global economic growth outlook.

Over the week, the US 10-year government bond yield fell a further 10 basis point to 2.75%, having been as high as 3.13% earlier in the month. New Zealand bond yields were unchanged at 3.48%.

**What's happening in markets**

In the US, the release of the minutes from the Fed's meeting in early May hinted at the possibility of a pause to the aggressive rate hiking cycle later in the year when the Fed might be "well positioned to assess the effects of policy firming."

While most market commentators still see the need for the Fed to move in 50 basis point increments at its next two meetings (in line with current market pricing), many now see the potential for the Fed to slow the pace of hiking after that. Several of the rate-setting committee members also see a potential moderation in labour demand leading to a 'soft landing' for the economy. This was seen to be positive for investment markets and explains why global equity markets were higher this week.

Meanwhile, in New Zealand, the RBNZ raised the Official Cash Rate by 50 basis points and signalled a much more aggressive tightening path ahead, as the bank seeks to get on top of runaway inflation. While most had expected the RBNZ to raise the cash rate, its forecast track is now more aggressive. It raised its forecast peak in interest rates from 3.35% to 3.95%, meaning it projects the cash rate to almost double from its current level over the next year.

The RBNZ sees inflation peaking at 7.0% in the June quarter of 2022, well above its 1-3% target range, underlining the urgency to temper price-setting behaviour. *"A larger and earlier increase in the (Official Cash Rate) reduces the risk of inflation becoming persistent, while also providing more policy flexibility ahead in light of the highly uncertain global economic environment,"* the RBNZ said in its statement.

Short dated New Zealand bond yields moved higher in response, as did the New Zealand dollar.

**What's on the calendar**

The big event for markets this week will be Friday's employment report in the US, which is expected to show solid job gains but a slowing down from April's strong growth (when 428,000 jobs were added). The jobs report is expected to show that 350,000 jobs were added in May, supporting the Fed's plans for further interest rate hikes to tame inflation. Also in the US is consumer confidence, ISM manufacturing and monthly vehicle sales data, and the Fed's Beige Book. The Beige Book is a region-by-region assessment of recent economic activity.

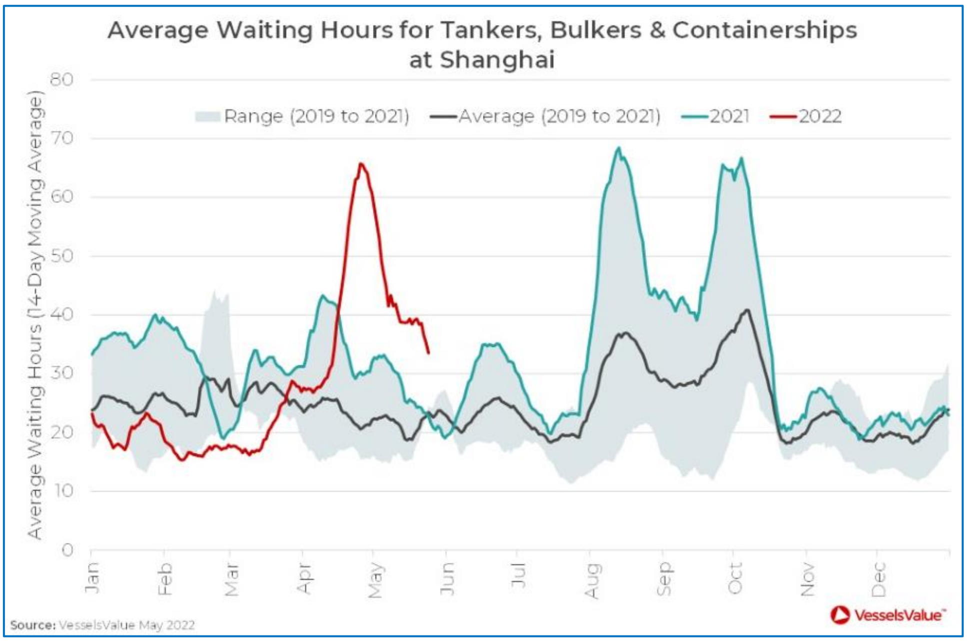
Across the border from the US, the Bank of Canada is expected to continue its aggressive rate-hiking cycle on Wednesday, as it rushes to return policy settings back to more neutral levels. Most commentators expect a second straight 50 basis point increase, which would take its policy rate to 1.5%.

Meanwhile, with the Eurozone Consumer Price Index (CPI) already running at a record high, all eyes will be on Tuesday's latest report. It comes as the ECB has been preparing the market for a possible 25 basis point rate hike at its meeting in July, although it should be noted that even after such aa move, interest rates there would remain in negative territory.

It's a relatively quiet week at home, with ANZ Business Confidence likely to be the key focus.

**Chart of the week**

Congestion at the port of Shanghai remains high for the time of year, but is steadily normalising as the city's COVID wave appears to subside. VesselsValue data shows average waiting times for vessels at the port is now down to 34 hours, from a peak of 66 hours at the height of reported Omicron cases in late April. This is still around 10 hours longer than levels this time last year. But a resumption of the downward trend should be welcome relief for supply chain planners in the region and around the world.




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

The thing that most affects the market is everything:
https://awealthofcommonsense.com/2022/05/the-two-things-that-matter-most-if-you-own-stocks/

Eight Charts that Explain the Market:
https://theirrelevantinvestor.com/2022/04/23/eight-charts-that-explain-the-market/

How inflation became America's greatest economic problem:
https://www.grid.news/story/360/2022/05/11/how-inflation-became-americas-greatest-economic-problem/