The Weekly Snapshot

1 November 2021

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

Global equity markets continued their march higher last week. In the US, the Dow Jones Industrial Average, S&P 500 Index and the NASDAQ 100 Index all hit record highs as strong earnings from major companies bolstered investor confidence. Nearly half of all S&P 500 companies have now reported third-quarter earnings, with a large majority of them having delivered better-than-expected results.

Historically, October has often been a volatile month for global equity markets, and while it started off with a few ups and downs, overall it proved to be a strong period for markets. The three major US indices (as set out above) delivered gains of 4.4%, 5.7% and 6.4% respectively – offsetting losses in September.

New Zealand equities again underperformed, as rising bond yields weighed on the more defensive NZX 50 Index. Over October as a whole, the local market was down 1.4%.

Bond markets also delivered mixed performances. The yield on Australian 3-year bonds rose sharply following stronger-than expected Australian inflation data, which forced many to position for interest rates moving higher sooner than 2024 – which is when the Reserve Bank of Australia (RBA) has forecast its first move up. Ordinarily the RBA would have stepped in to buy these bonds as part of its 'yield curve control' policy to help push the yield down close to its 0.1% target level. However, it passed up on the opportunity, suggesting to some that it is about to abandon this policy. In other major overseas bond markets however, yields were generally lower (and bond prices higher).

What else happened in financial markets?

US share rose despite disappointing third quarter Gross Domestic Product (GDP) growth of 2.0%. This was well below the 2.8% expected, and a big step down from the 6.7% recorded in the second quarter. However, it is widely felt that the third-quarter saw economic activity hit by the wave of COVID-19 Delta infections sweeping the country – which have since receded.

Staying in the US, Joe Biden announced a revamped, but scaled-back, $1.75 trillion social spending plan. However, he will need unanimous support from his party for the bill to pass. The plan includes major investments in infrastructure, climate change and childcare.

The Bank of Canada surprised, as it announced an immediate end to its Quantitative Easing (QE) programme, and brought forward interest rate hike guidance to the middle of next year. This was on the back of higher-than-expected inflation data, which has overshot the bank's target range.

As mentioned above, Australian inflation surprised on the upside, with price increases appearing more broad-based. During the quarter, CPI rose 0.8%, or 3.0% over the year. Core inflation jumped to 2.1%, ahead of 1.8% forecast, and rising at its fastest annual pace since 2015. This takes inflation to being above the bottom of the RBA's 2 – 3% target, and calls into question whether the RBA will stick to its view that official interest rates are unlikely to rise before 2014.

What's on the calendar?

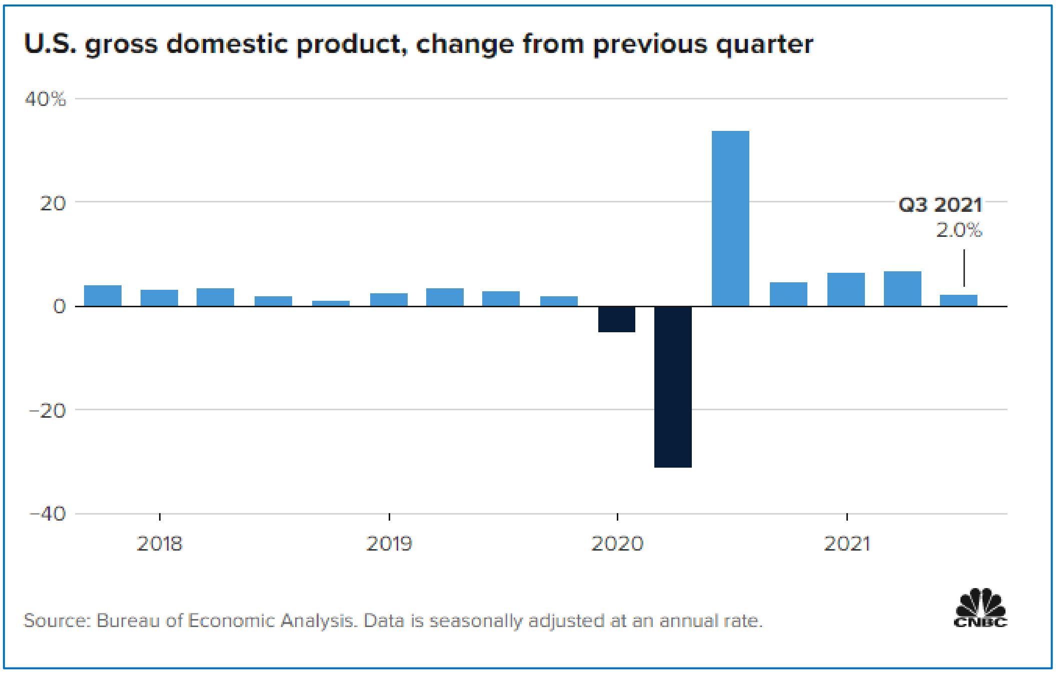
It's another busy week on the economic calendar, with the US Federal Reserve meeting on Wednesday likely to be the key focus. Markets appear to have accepted that a 'tapering' of its bond purchases will be announced, but are hoping that the policy for interest rates remains unchanged. Also in the US, ISM (Institute of Supply Management) survey data will be closely watched, with employment and cost pressures likely to be the main areas of focus within the survey.

While the UK will be quiet in terms of economic data, the Bank of England monetary policy decision will be key on Thursday. Markets are expecting votes in favour of a hike, albeit a modest one, in an effort to reign in the recent jump in inflation.

Across the Tasman, the Reserve Bank of Australia monetary policy decision and rate statement will be closely watched. Most expect interest rates to remain unchanged, however, the bank's economic outlook and forward guidance will no doubt be closely analysed.

Chart of the week

US economic growth slowed sharply over the third quarter, reflecting the resurgent pandemic's impact in keeping consumers at home and supply-chain bottlenecks that have led to empty shelves and higher prices. The outlook for the rest of the year is mixed. While the pandemic's grip appears to be easing, the supply-chain issues are unlikely to go away in a hurry.



Here's what we're reading

While Evergrande Group may have fallen out of the headlines, similar troubles are being reflected elsewhere in the property development sector – and ratings downgrades amongst Chinese developers have accelerated: https://www.straitstimes.com/business/property/chinese-developer-modern-land-misses-payment-on-us-dollar-bond