The Weekly Snapshot

29 November

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

Global equity markets fell sharply on Friday to book weekly losses as concerns around a new COVID-19 variant thought to have originated in South Africa saw a pickup in volatility. In the US, the S&P 500 and NASDAQ 100 retreated from all-time highs to close the week down more than 2%, while in New Zealand, the NZX 50 ended down nearly 1%.

Meanwhile, bond yields also fell sharply with the US 10-year government bond yield finishing the week around 1.5% after trading near 1.7% earlier in the week.

What's happening in markets

Friday's sell-off in global equities came after the World Health Organization declared the Omicron variant of COVID-19 "a concern" – a similar statement they made after the discovery of the Delta variant, which is the most dominant variant in global COVID-19 cases.

The major concern for health offices is that the variant has a high number of mutations, which could make it more likely to evade vaccines, or at least make current vaccines less effective against the strain. In response, Pfizer said it had already begun investigating the variant and said it could adapt the mRNA technology and ship vaccines in around 100 days.

Friday's volatility was made worse as trading around Thursday's Thanksgiving holiday is often associated with lower volumes as many Americans don't return to work until Monday.

Earlier in the week, US bond yields had risen to 4-week highs after minutes from the latest Federal Reserve meeting showed policymakers were prepared to tighten monetary policy "sooner than participants currently anticipated if inflation continued to run higher than levels". However, Friday's volatility erased the gains in bond yields.

The leading news in New Zealand last week came on Wednesday when the Reserve Bank of New Zealand lifted the Official Cash Rate by 25 basis points to 0.75%. The move, which was widely expected, came amid ongoing concerns around inflation pressures and capacity constraints in the economy. The central bank's forward track showed it expects the OCR to reach 2.5% by late 2023.

Nevertheless, the committee noted that lifting the OCR over the coming months will could create headwinds with the economic outlook still murky and growing debt levels in the country.

> ***"However, the Committee expressed uncertainty about the resilience of consumer spending and business investment as the country adapts to living with the COVID-19 virus in the community. The Committee also noted that increases in interest rates to households and businesses had already tightened monetary conditions. High levels of household debt, and a large share of fixed-rate mortgages re-pricing in coming months, could increase the sensitivity of consumer spending to these interest rate increases."***

Despite the interest rate hike and the higher-than-expected forward track, government bond yields actually declined after the meeting. The New Zealand 10-year government bond yield fell below 2.5% on Wednesday, before ending the week down nearly 10 basis points.

What's on the calendar

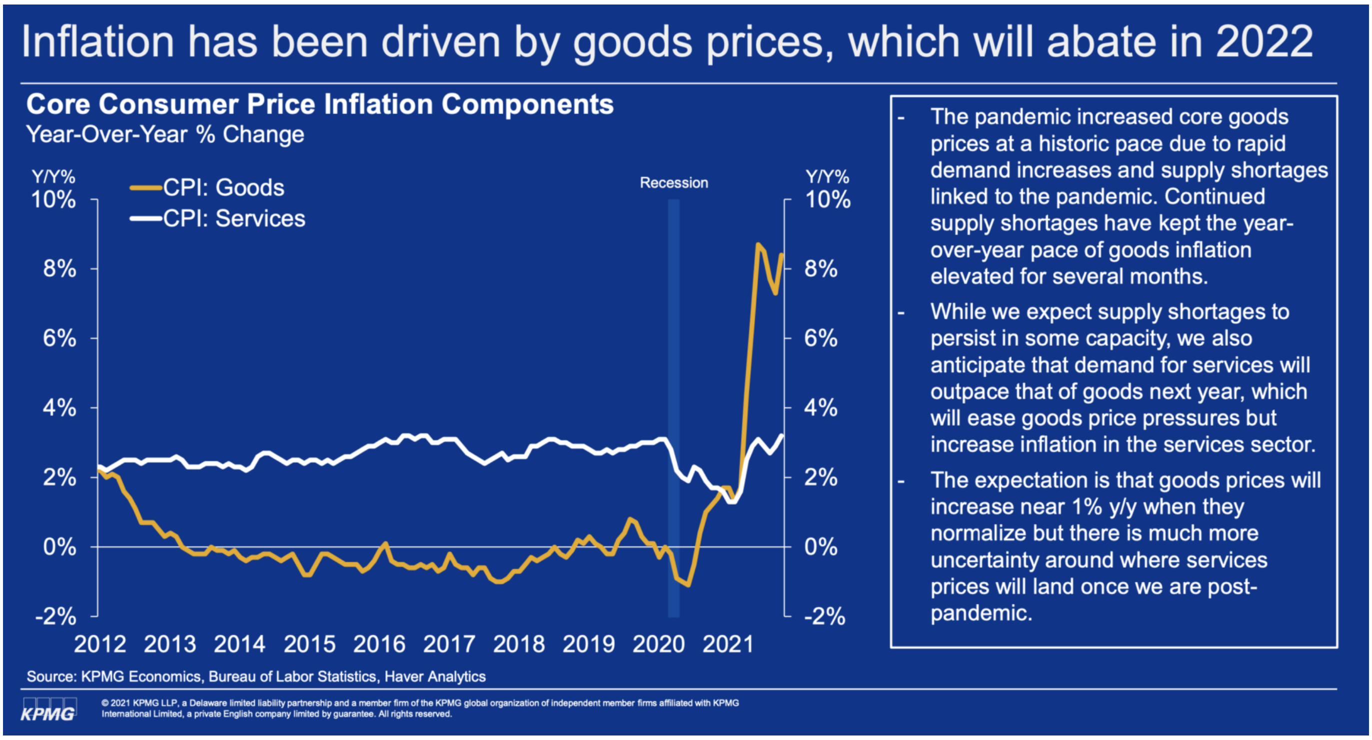
The week ahead will be dominated by COVID-19 developments as fears a further surge in global COVID-19 cases could pose risks to the global economy, healthcare and add to the growing social unrest amid lockdowns and restrictions. Furthermore, as central banks have begun to tighten monetary policy, or signal they are close to, bond markets could reprice some of this.

Elsewhere, the US employment report on Friday will garner attention as the US labour market continues to rebound nicely. It is expected that the economy added around 500,000 jobs in November. Staying in the US, Fed Chairman Jerome Powell and Treasury Secretary Janet Yellen speak before the Senate Banking Committee on the pandemic and the fiscal response.

Finally, in New Zealand, November's ANZ Business Confidence survey may show signs of optimism waning due to inflationary pressures, rising interest rates and the Auckland lockdown.

Chart of the week

The spike in inflation has been driven almost solely by goods, with services CPI around pre-pandemic levels. KPMG believes that the easing of demand and improvements in supply chains will see the rate of inflation in goods ease in 2022.



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Here's what we're reading

"The biggest risk to inflation going forward is not a continuation of the forces currently at work in the goods sector: this will not be persistent. Instead, the biggest risk is that large increases in demand for workers in the services sector will not be met by equally large increases in labor supply." - https://www.brookings.edu/blog/up-front/2021/11/16/what-does-current-inflation-tell-us-about-the-future/

The Great Resignation: Who is quitting and why? - https://ritholtz.com/2021/11/who-is-quitting-and-why/