The Weekly Snapshot

8 November 2021

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

Another week and more all-time highs for several US stock indices in what was a busy week in financial markets. The S&P 500, NASDAQ 100 and Dow Jones Industrial Average all recorded their fifth-straight weekly gains, and all rose to all-time highs. European markets also posted good gains, with the Euro Stoxx 50 trading to its highest level in more than 10 years.

It wasn't such a good week down under with the NZX 50 continuing its recent underperformance, ending the week down nearly 1% as rising bond yields weighed on equity prices.

What else happened in financial markets?

The ongoing rally in US stocks came after the US Federal Reserve said it would begin tapering its bond-buying programme by reducing purchases by $15 billion per month in what was a highly-anticipated meeting. While some had expected a taper could unsettle stock markets, the Fed reiterated it would be patient and its policy would remain adaptable as the environment changes, reassuring investors it was ready to act in what is a still uncertain market.

> ***"I don't think that we're behind the curve. I actually believe that policy is well-positioned to address the range of plausible outcomes, and that's what we need to do,"*** Fed Chair Jay Powell.

Then on Friday, the closely watched US employment report showed the economy added 531,000 jobs in October, ahead of consensus and that figures for August and September were revised higher. The unemployment rate hit a pandemic low of 4.6%, which was also better than most forecasts.

Staying in the US, after months of deliberation, the House finally passed the US$1.2 trillion infrastructure package, which required Republican support after six Democrats broke with party.

It was also a busy week in the UK, with the Bank of England leaving interest rates unchanged (a full hike was priced in). The 7-2 vote to leave policy unchanged saw UK yields fall sharply, while the British pound fell more than 1% in the ensuing hours. The central bank noted a "high degree of uncertainty" around the labour market, estimating around one million jobs were likely to have been furloughed before the Coronavirus Job Retention Scheme closed at the end of September.

Finally, in New Zealand, economic data continued to run hot with the unemployment rate touching a record low at 3.4% as labour shortages continue to make it harder for businesses to find workers.

What's on the calendar?

After a busy week, things quieten down a little, but the focus will remain on inflation with the producer price index and consumer price index in the US released. It is expected that consumer prices will rise to their fastest level in around 30 years with expectations for a year-on-year figure close to 6%.

Other economic data of note this week includes, UK GDP, University of Michigan sentiment and expectations, and Germany's ZEW Survey – another sentiment indicator.

After passing the infrastructure package, lawmakers in the US will switch their attention to the Build Back Better package, which is shrinking by the week as moderate Democrats have concerns over its size and potential impact on inflation.

In New Zealand, it's a quiet week on the economic data calendar, with most eyes on Monday's decision from Cabinet regarding COVID-19 restrictions and any potential timeline for reopening of certain sectors.

And across the Tasman, Australian employment data for October is released on Thursday.

Chart of the week

The word stagflation is being thrown around a lot these days with comparisons to the 1970s being made. However, this side-by-side appears to debunk the narrative.

Indicator	1970s	2020s
Unemployment (U3)	Persistently over 5% and occasionally near 9-11%	Spikes briefly during pandemic from 3.5% to 15%, then quickly fell back under 5%
Inflation (CPI)	Averages ~7.5% over a decade, topping at 14.6% in April 1980	Averages ~2% over the prior decade, topping at 5.4% in September 2021
Wages vs Inflation	Consistently fell in real after-inflation terms	Rose in real after-inflation terms
Productivity	Predated the computer/internet era. Productivity improvements were modest at best.	Ubiquitous computing, mobile apps, massive data availability equals enormous cumulative productivity gains
QUITs Rate	Very low (Anecdotal)	At or near record-high since data series began 2001
Business Formation	Modest at most (Anecdotal)	At or near record-high since data series began 2006
Sentiment: University of Michigan (2 data series)	Malaise	Moderate
Confidence in Institutions	High	Low
Civil Unrest	High	High

Here's what we're reading

Is the current economic environment similar to the 1970s? – not even close says Barry Ritholtz - https://ritholtz.com/2021/11/stagflation-lol/

"If the world changed in the last 18 months, can you really use data that is 10 years old?" - https://allisonschrager.substack.com/p/known-unknowns-359