The Weekly Snapshot

11 October 2021

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

It was a volatile week for both global and domestic equities, with several daily sessions ending with gains or losses of more than 1% in some equity benchmarks. By the end of the week, US and European equities were mostly higher, while in New Zealand, the NZX 50 ended a run of three-straight weekly gains to finish down around 1.5%.

Bonds continued their recent slide with yields on most developed government bonds ending the week higher.

What's happening in markets?

It was a particularly busy week both at home and abroad. In New Zealand, the Reserve Bank of New Zealand became one of the first developed world central banks to reverse rate cuts put in place in 2020 during the early stages of the pandemic when it raised the Official Cash Rate to 0.5%.

As expected, the committee reiterated its concerns around capacity constraints, noting that some may be more long-term as the global economy moves forward with COVID-19 still prevalent.

> ***"Demand shortfalls are less of an issue than the economy hitting capacity constraints given the effectiveness of Government support and resilience of household and business balance sheets. While some capacity bottlenecks are likely to be short term, there is a risk that these become more persistent as we transition to a COVID-19 endemic state of the world,"*** – RBNZ statement.

One of the biggest movers after the RBNZ meeting was the New Zealand dollar which fell below 69 cents. However, the kiwi recovered to end the week around 0.6930. And in fixed interest, the New Zealand 10-year government bond yield closed the week above 2%.

Overseas, the highlight came on Friday when economic data showed the US economy added 194,000 jobs in the month of September, fewer than the 500,000 expected. However, the unemployment rate dropped to 4.8% from 5.1%.

The question now is whether the underwhelming jobs report will deter the Federal Reserve's plan to scale back its bond-buying programme. Given the rise in bond yields on Friday (the US 10-year government bond yield traded above 1.6% for the first time in four months), it appears the market is brushing aside the weaker-than-expected employment report.

Staying in the US. It appears lawmakers have agreed to avoid a debt ceiling debacle, with Democrats and Republicans agreeing to an extension of around US$500 billion, which will take the Treasury through until early December.

What's happening in markets?

This week will see third-quarter earnings begin with major banks, as usual, kicking off earnings season. Banks are expected to report strong revenue numbers on the back of rising bond yields, while a buoyant property market should see loan growth remain strong. Banks set to report include, JPMorgan Chase, Bank of America, Morgan Stanley, Citigroup and Goldman Sachs.

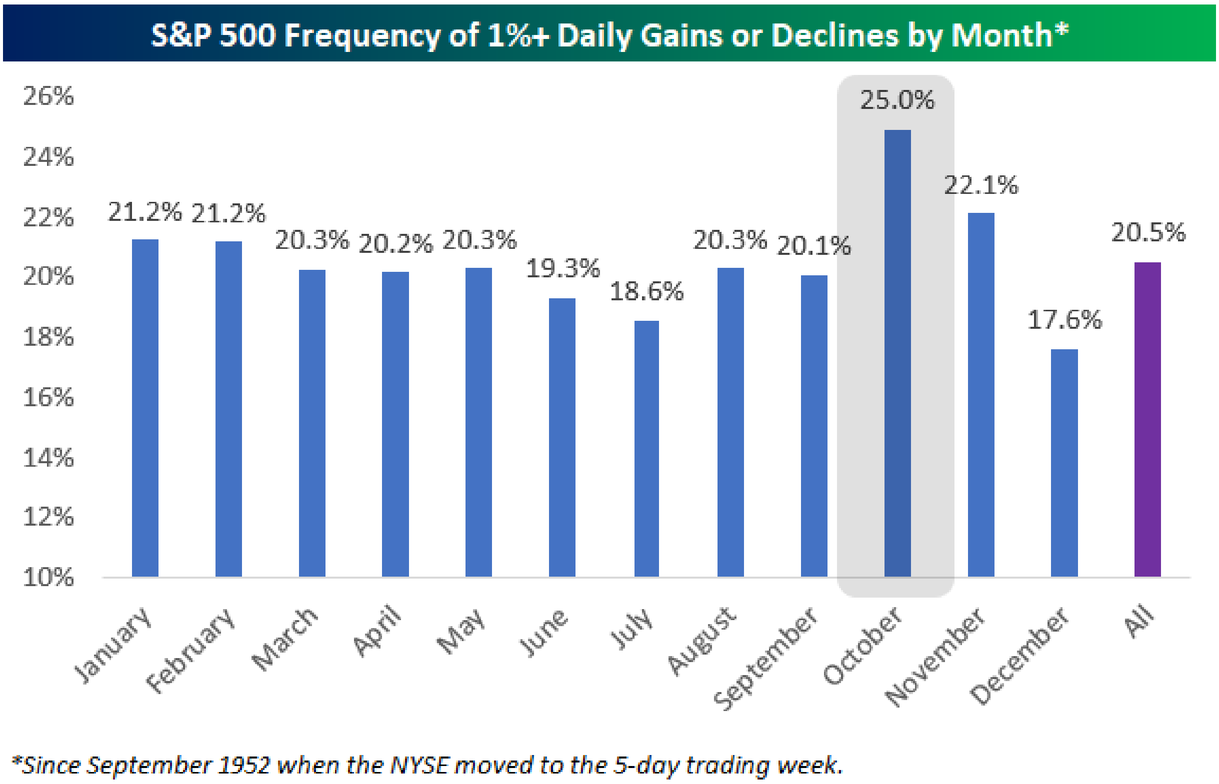
Staying in the US, minutes from the September Federal Reserve meeting should confirm that policymakers are in agreement to begin tapering in November.

And in economic data, inflation will again be front and centre with September's report due on Wednesday. It is likely to show outliers like used car prices continue to subsided, which will reduce the likelihood of a big upside surprise.

It's a quiet week in New Zealand with the focus being on the spread of COVID-19 across the country and Monday's press conference where the government will update any settings to alert levels. And across the Tasman, Australian employment data for September is due Thursday.

Chart of the week

Regarding the recent pickup in volatility and larger-than-usual daily ranges in equity markets, seasonality data shows that we could be in for more up and down sessions with October the month with the greatest number of 1%+ daily ranges of the S&P 500 dating back to 1952.



Here's what we're reading

Supply chain issues aren't going away – in fact, they are getting worse - https://www.vox.com/recode/22714507/shipping-delays-chip-shortage-holiday-shopping

Are We Craving Risk or Losing Reward: "1980-2000 will go down as the most favorable 20-year period in US investment history. However, we haven't changed our collective narrative to reflect this yet…" - https://ofdollarsanddata.com/are-we-craving-risk-or-losing-reward/

What would Lael Brainard mean if she were to replace Jerome Powell as chair of the Federal Reserve? Powell is still seen as the frontrunner to keep his position, but recent scrutiny of Fed members conduct have progressives calling for a change - https://www.cnbc.com/2021/10/07/feds-brainard-in-line-for-key-banking-post-what-it-means-for-wall-street.html