The Weekly Snapshot

18 October 2021

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

It was a much better week for global equity markets following a couple of weeks of heightened market volatility. The technology-heavy NASDAQ Index led the gains for US equity markets, up 2.2%, while the broader-based S&P 500 Index rose 1.8%. Cyclical sectors, such as materials, industrials and consumer discretionary were outperformers, while real estate investment trusts also did well. It comes on the back of a generally encouraging start to the third quarter earnings reporting.

New Zealand shares however were unable to match the returns of their global counterparts, with the NZX 50 Index falling 0.5%.

Bonds had a better week, as yields on the US 10-year government bond reversed their recent upwards trend, at one point down by 11 basis points, but ending the week only 3 basis points lower at 1.58%.

What happened in financial markets?

A key focus for markets last week was US inflation data. Consumer Price Index (CPI) data came in close to market expectations, up 0.4% in September and 5.4% over the year. Core CPI (which excludes volatile food and energy prices) was slightly below expectations, up 0.2% in September and 4.0% over the year.

Under the surface there were clear signs of broadening inflation pressure. Some transitory factors continue to roll-off as expected, with the boost from economic reopening beginning to fade. A key development was the pick-up in the 'shelter' component of inflation (i.e. housing), up 3.2% over the year to end September, from 2.8% last month. Shelter has the biggest weight in US CPI, making up almost a third of the overall basket of goods (and includes both rent and the costs of living in own homes) – see our 'Chart of the week' section for more information.

Part of the optimism in equity markets last week can be attributed to the start of the third quarter earnings reporting season in the US. So far, the results have generally been better than expected, with the main banks mostly beating expectations.

Only 7% of S&P 500 Index companies have reported so far, with the bulk of results arriving over the next couple of weeks. However, out of the early results we are seeing 80% of companies beating earnings estimates and about 77% beating top line sales estimates. The magnitude of the earnings surprise is also reasonably impressive, with earnings growth for the companies that have reported tracking at +40% year on year, 13% ahead of expectations.

What's on the calendar?

Inflation will remain a focus as we head into this week, with third quarter inflation in New Zealand, and September numbers for both the UK and the eurozone due to be announced.

Meanwhile, in China, third quarter Gross Domestic Product (GDP) will be a key focus, with investors keen to understand whether the world's second-largest economy continues to slow.

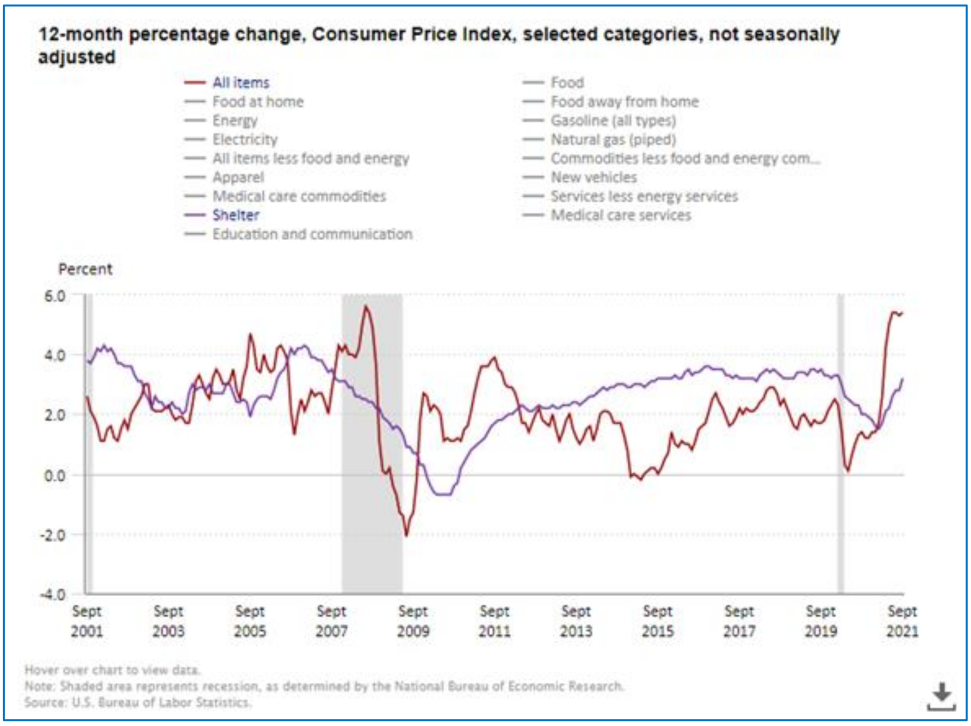
We will also see a continuation of reporting season. The most important factor from this season will be the guidance offered for futures periods, and the outlook for margins in 2022. With rising pressures on margins from a range of sources (labour costs, shipping, materials and taxes) there will be a focus on the pricing power for companies and how easily they will be able to adapt or pass on the higher costs to customers. This is a key risk we will be monitoring over the next year.

Other that the inflation data, it's a quiet week in New Zealand. All eyes will again be on today's post-Cabinet press conference, where the government will update us on alert level settings.

Chart of the week

US house prices have been trending higher, so it was only a matter of time before the CPI 'shelter' component broke out. It's an early signal of more persistent inflation ahead, and we expect this component to become the main driver of inflation over the medium term.

The 'shelter' component has a 32% weighting. But while it's the largest, it's also the slowest moving. With inflation impacting everything, there's a risk that landlords put up rents further to cover their own costs.



Here's what we're reading

More Americans are quitting their jobs than ever before, according to a report from the Department of Labor. It said more than 4.3 million people decided to leave their job in August 2021.COVID-19 certainly sparked changes, but was some of this already happening?
https://www.mauldineconomics.com/connecting-the-dots/big-bad-employers