

The Weekly Snapshot

26 October 2021

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

Global equity markets continued to move higher last week with Q3 corporate earnings, for the most part, continuing to come in on the stronger side. In the US, the S&P 500, NASDAQ 100 and Dow Jones Industrial Average all finished the week up more than 1%, with the Dow ending at an all-time high.

New Zealand equities broadly underperformed as rising bond yields weighed on the defensive-heavy NZX 50. However, the index still managed to finish the week slightly higher. Meanwhile, in Australia, the ASX 200 recorded its third consecutive weekly gain, gaining around 0.7%.

What happened in financial markets?

It was an eventful week in New Zealand, with inflation again dominating the headlines. On Monday, Stats NZ said the Consumer Price Index rose 2.2% in the September quarter and 4.9% year-on-year, the fastest rate of inflation in more than a decade.

The data saw rates move sharply higher, with the New Zealand 10-year government bond yield rising more than 20 basis points over the week, closing near 2.5%, its highest level in nearly three years.

The move sparked a flurry of mortgage rate rises from many domestic banks and further Official Cash Rate hikes were priced in by interest rate markets.

Sticking with inflation, US Federal Reserve Chair Jerome Powell said inflationary pressures could last for longer than expected, increasing the likelihood policymakers would have to start tightening monetary policy in the near future. Speaking at a Bank of International Settlements conference, Powell said "supply-side constraints have gotten worse" adding that the economic risks are "clearly now to longer and more-persistent bottlenecks, and thus to higher inflation."

In stock-specific news, Alphabet (parent company of Google) and Facebook were in focus on Friday after a court document accused Google of using its monopoly power to rig online advertising, which included working with Facebook. The [court document](#) accuses the company of using tools to "reduce competitors' ability to compete on price," with the company winning 80% of its ad auctions on its own site. And working with Facebook, the court document alleges Google agreed to give the social media giant "information, speed, and other advantages" on Google-run auctions.

What's on the calendar?

It's a busy week ahead with inflation again set to be a key focal point for global markets.

In Europe, Euro-area inflation figures are released on Friday, which could show year-on-year inflation near 4% as soaring energy prices are testing policymakers who have become more divided on the level of monetary stimulus. This divide will become clearer when the European Central Bank meets on Wednesday. At its last meeting, the ECB said it would defer a decision on bond purchases to December, however, since then, inflation reached its fastest pace in more than a decade, further increasing calls for the central bank to dial back its bond-buying programme.

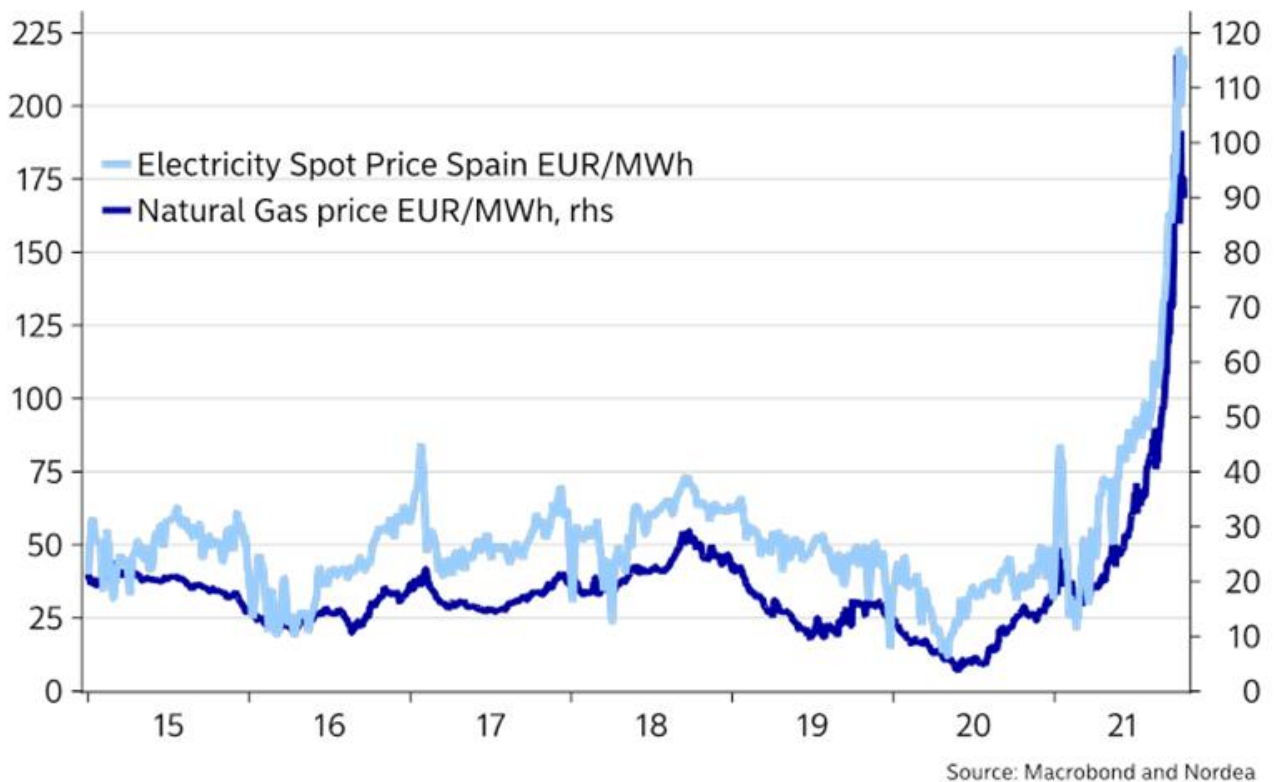
In the US, reporting season enters one of its busiest weeks with a multitude of companies set to release, including growth-orientated companies Apple, Microsoft, Alphabet and Amazon, while cyclical-type stocks including Boeing, Coca-Cola and McDonald's will also report.

And staying in the US, it's a busy week on the economic calendar, with the first reading of Q3 GDP the highlight. Expectations have drifted lower over the past few weeks as concerns about the Delta variant spread and supply chain disruptions have weighed on activity. Nevertheless, it is expected the economy grew at around 3% for the quarter.

Elsewhere, core PCE Price Index figures (the US Federal Reserve's preferred measure of inflation) will continue the inflation watch, while Michigan Consumer Sentiment and the Conference Board Consumer Confidence readings are also on the radar.

Chart of the week

The rise in European inflation has come in part from the surge in gas prices. As winter in the Northern Hemisphere nears, fears the supply shortage could see Europeans in for some lofty winter heating bills.



Here's what we're reading

Putin holding Europeans hostage on their winter heating bills this year: "Winter may not have started but already there is growing alarm that Russia will use its energy resources to hold Europe hostage in the coming cold months" - <https://www.newsweek.com/vladimir-putin-holds-all-cards-us-strategy-stop-energy-crisis-disarray-1636981>

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