

The Weekly Snapshot

4 October 2021

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

It was another tough week for global share markets. The S&P 500 Index fell 2.3%, while the tech-heavy NASDAQ Index fell 3.3%. Concerns about global economic growth and COVID-19-related worries weighed negatively on markets, while ongoing concern around China's Evergrande Group also had a detrimental effect, as the company missed another payment for overseas bond investors.

All in all, it proved to be a challenging end to September, what with inflation fears and rising bond yields also on investors' minds. The S&P 500 Index finished the month down 4.8%, while the NASDAQ finished the month down 5.3%, their worst monthly performances since March 2020 (when global economic lockdowns caused major sell-offs in world markets).

New Zealand shares proved resilient. While there were a few ups and downs, the NZX 50 Index finished the week flat and, over September, it was modestly higher, up 0.3%. The key piece of economic data last week was the ANZ Business Outlook for September. It showed that business confidence improved, despite extended COVID-19 restrictions (for more information, see our 'Chart of the week' section).

Meanwhile bond yields continued to trend higher. While the yield on the US 10-year government bond rose by only 1 basis points to 1.46% over the week, at one point its yield hit 1.54% - a three and a half month high. The rise in bond yields has been fuelled by concerns over inflation and the Federal Reserve signalling that it may soon begin tapering its bond purchases. When bond yields rise, the higher yield on offer gives investors less incentive to pay higher prices for shares. This partly accounts for the recent weakness in shares, and the poorer showing for technology company in particular (which are particularly sensitive to higher yields).

What's on the calendar

In New Zealand, two things will be closely watched this week. The first is the post-Cabinet press conference today, when Aucklanders will discover whether the region can move down to Alert Level 2. However, at this stage, with the Waikato region having been moved up to Alert Level 3 as of midnight last night, it's looking less likely.

The other highlight will be the Reserve Bank of New Zealand (RBNZ), which meets on Wednesday to decide whether or not to raise the Official Cash Rate. At the moment, all bets are for a 25 basis point increase, up from 0.25% to 0.50%. If the RBNZ does indeed raise interest rates, it will be the first time since the start of the global pandemic that New Zealand interest rates are heading higher, and it will be only the second of the world's major central banks to do so (following a similar 25 basis points increase by Norway's Norges bank a few weeks ago).

In overseas markets, politics may take centre stage in the US, as lawmakers are set to continue to address the matter of the US debt ceiling. Last week, Congress reached an agreement to temporarily avoid the US government from going into partial shutdown, however, a pressing matter is the lifting of the debt ceiling - the limit on the amount the US government can borrow. Unless Democrats and Republicans arrive at an agreement, the operations of a number of federal agencies could come to a granting halt.

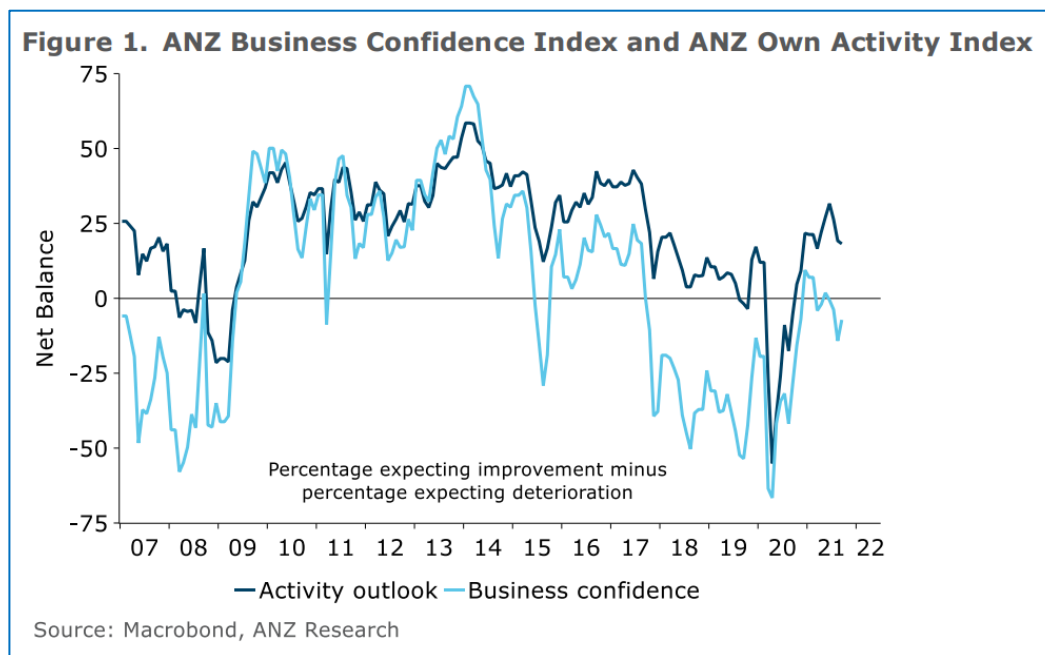
From an economic data perspective, all eyes will be on Friday's September's jobs report in the US. Should the employment numbers jump higher, then markets may consider it to be a green light for the US Federal Reserve to begin tapering bond purchases. Elsewhere, in Europe, it's going to be a relatively busy week; with PMIs (Purchasing Managers Index) released in most of the major countries, a plethora of data on the state of the German economy, and eurozone retail sales figures.

Meanwhile, earnings season is about to get underway, with a number of large US companies expected to provide financial updates during the week.

Chart of the week

The key piece of economic data last week was the ANZ Business Outlook for September. It showed that business confidence improved, despite extended COVID-19 restrictions. A net 7.2% of businesses are pessimistic – which was an improvement on the previous month's 14.2%. Meanwhile, businesses' own activity outlook was remarkably robust, with a net 18% confident.

It suggests that businesses are looking through the current lockdown, knowing that we've been here before, and that in the past, demand has tended to bounce back pretty quickly once restrictions are lifted. (Source ANZ Business Outlook).



Here's what we're reading

In our 'What's on the calendar' section, we talked about the US debt ceiling and lawmakers wanting to avoid another government shutdown. This now seems to be a regular once-a-year occurrence. To find out more, check out this explainer from the BBC :

<https://www.bbc.com/news/world-us-canada-58732793>

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