The Weekly Snapshot

27 September 2021

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

It was a week of two halves. The first half saw global share markets falling sharply on news that China's Evergrande Group, the country's largest real estate developer, was struggling to make payments on around US$300bn of debt. Investors were worried that a default on its debt, or the company's potential collapse, could lead to a much broader economic fallout in China – and potentially, in global markets.

The second half saw global share markets recover as Evergrande Group announced it had resolved some interest payments that were due, although questionmarks remained about other payments due later in the week. Sentiment also seemed to improve as investors came around to the view that any economic fallout could be relatively contained – and might not feed into global markets as initially feared. Markets also rose as the focus shifted once again to global economic growth and the future path of interest rates.

What happened in financial markets?

Global share markets initially fell, with the S&P 500 Index down 2.6% at one point. The falls were more pronounced in Asian markets, with the Hang Seng China Enterprises Index (which tracks the performance of Hong Kong-listed Chinese companies) down 4.8%. However, markets later recovered. The S&P 500 Index finished the week 0.5% higher, although Asian markets were only able to recover some of their losses. New Zealand shares took their lead from overseas markets, but finished the week up 1.0%.

Safe haven government bonds initially gained, with the yield on the US 10-year benchmark bond falling by as much as 6 basis points. However, they too reversed direction later in the week on the back of more hawkish comments from a number of the major central banks – which put future interest rate hikes back on the agenda. The US 10-year bond finished the week up 8 basis points at 1.45%.

Fears that Evergrande Group might default did impact negatively on the high yield bond market, although higher-quality investment grade bonds held up well.

What now for the Evergrande Group and how could it impact on investors?

What happens next, and the extent of the economic and financial fall out, will depend largely on whether the company can restructure its debt and renegotiate payments with its many lenders, and/or whether China's government steps in to bail out (or partially bail out) the company.

On the one hand, its government will want to avoid a high-profile corporate collapse. On the other, a bailout could be seen as setting a bad example, and would go against the government's recent efforts to rein in corporate debt. The situation is evolving and we'll find out more over the coming weeks.

In terms of your investments we would highlight the following:

- We do not own any shares or bonds issued by Evergrande Group within ANZ Investment's portfolios, nor do we own any other Chinese yuan-denominated debt.
- ANZ Investments' portfolios are carefully diversified to help manage market volatility. For example, bond markets rose early in the week in response to the sell-off in share markets, and this provided positive returns from that asset class to our portfolios during this time.
- Our investment team continues to monitor the situation to consider whether it presents any buying or selling opportunities. That's what our 'active investment management' approach is all about.

Central Banks were in the spotlight later in the week

Central bank meetings in the US and the UK were a focus for markets later in the week. The Federal Open Market Committee (FOMC), which sets US monetary policy, said overall indicators of economic activity "have continued to strengthen", and went on to prepare the ground to possibly begin dialling back some of the extraordinary support it has given the economy during the pandemic.

It left interest rates on hold (as expected) and, while it will continue with its current pace of bond purchases, it said it would start reducing its support for the economy "soon" –

although it did not say when. Most expect this to be announced at one of its meetings before the end of this year. It also released its projections for interest rates – the so-called "dot-plot" (find out more below).

In the UK, policymakers voted unanimously to leave interest rates unchanged. It too opted to stick to its current bond purchase targets. However, two members voted for an early end to these, opening the door for rate hikes. Meanwhile, Norway's Norges Bank became the first developed country to raise interest rates since the start of the global pandemic, raising them by 0.25%.

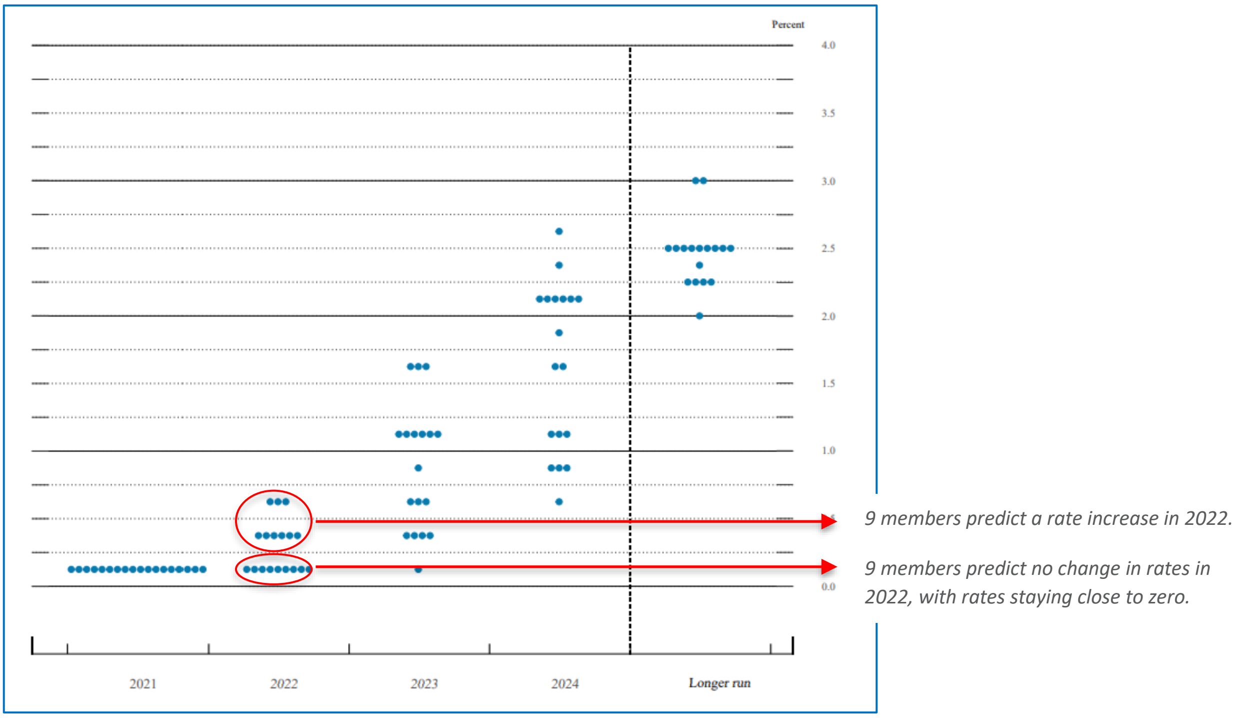
What's on the calendar

Investors will no doubt keep a close eye on Evergrande Group, which has left investors in limbo as to whether it'll meet its interest payments on a US dollar bond that were due last week.

Other than that, in the US, consumer confidence numbers are out on Tuesday and weekly jobless claims on Friday. In New Zealand, business confidence data on Thursday will be watched to gauge the impact of the latest lockdowns. Otherwise, investors will be looking ahead to the RBNZ meeting the following week, where it is now widely expected it will raise the Official Cash Rate by 0.25%.

Chart of the week

The FOMC quarterly 'dot-plot' is closely watched by investors to gauge the potential future path of interest rates. In June, only 7 of its 18 members expected interest rates to rise by the end of 2022. But now, half its members expect them to rise. By the end of 2023, only 1 member expects interest rates to remain where they are, with 17 expecting them to be higher. (*Source: US Federal Reserve*)



Here's what we're reading

Want to understand how to read the Fed's 'dot-plot'. Check out this explainer: https://www.thebalance.com/what-is-the-fed-dot-plot-416891