The Weekly Snapshot

6 September

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

Equity markets, for the most part, continued to edge higher last week, with several indices in the US and Europe posting modest gains, despite some downbeat employment data.

In the US, the S&P 500 continued its remarkable stretch, rising for the seventh straight month, the longest stretch since 2017. For the week, the index closed up 0.6%.

Meanwhile, New Zealand equities continued their bounce-back, with the NZX 50 rising to its highest level in around seven months.

What's happening in markets

The foremost news last week came on Friday when employment data showed the US economy added 235,000 jobs in August, well below consensus, while the unemployment rate dropped to 5.2% from 5.4%.

Despite the weaker-than-expected headline number, both prior months were revised upwards. Furthermore, wages grew at a faster pace than expected, rising 0.6% for the month.

Nevertheless, the jobs report will cast doubt on when the Federal Reserve will begin its much-talked-about tapering with Fed Chair Jerome Powell indicating in the past that employment data would be a key indicator when it begins to dial back its bond buying.

Staying in the US, the infrastructure package hit a snag on Thursday when moderate Democrat Joe Manchin said the party should take a "pause" on the US$3.5 trillion package. In a Wall Street Journal Op-ed, the West Virginia senator said a pause was necessary because "it will provide more clarity on the trajectory of the pandemic, and it will allow us to determine whether inflation is transitory or not."

The news casts doubt over the US$1.2 trillion bill, which was passed by the Senate last month, but House Speaker Nancy Pelosi said her chamber would not take a vote on it until the Senate passes the larger US$3.5 trillion package.

In New Zealand, the COVID-19 situation appears to be improving, with case numbers declining last week, which should provide comfort to investors expecting the Reserve Bank of New Zealand to raise interest rates in early October. While health officials have said Delta outbreaks tend to have a long tail – meaning cases decline but then plateau for a period of time – the news over the past week has been net-positive.

In Australia, some robust Q2 GDP data was overshadowed by the worsening COVID-19 situation with cases in New South Wales topping 1,500 per day and fears Victoria could be headed in the same direction with daily cases steadily rising.

What's on the calendar

It's a shortened week in the US with Labor Day Holiday on Monday, so attention will turn to Europe with the European Central Bank meeting on Thursday. Policymakers in Europe are facing similar questions to those in the US with respects to dialling back its bond-buying programme, amid rising inflation.

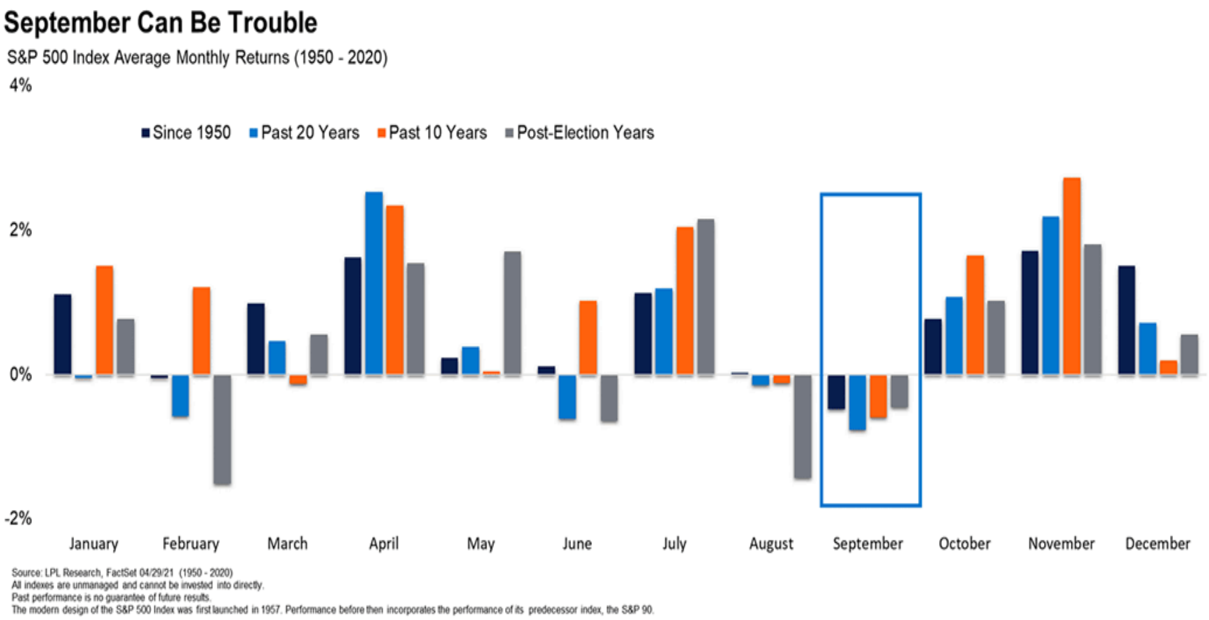
The ECB has also said it can tolerate a period of transitory inflation, but last week's 3% year-on-year inflation reading, the fastest pace in nearly a decade, is raising the possibility that the central bank could communicate that slowing bond purchase could be coming. Ahead of the ECB, employment data, Q2 GDP and the ZEW Economic Sentiment index for Europe are all scheduled to be released.

In other central bank news, the Reserve Bank of Australia meets on Tuesday with the COVID-19 surge threatening to dampen the strong post-COVID recovery. The RBA had said it would be reducing its bond-buying programme but that may be put on hold with the COVID-19 outbreak stifling business activity.

And in New Zealand, the focus will be on the COVID-19 Alert Level update this week, which will give an insight into how health officials see the risk of COVID-19 outside of the Auckland region.

Chart of the week

The S&P 500 recently recorded its seventh straight monthly gain, its longest stretch since late 2017. However, seasonality suggests September can be a challenging month for the broad US index.



Here's what we're reading

A closer look at inflation: The good, the bad and the ugly - https://stayathomemacro.substack.com/p/inflation-is-cooling-some-but-not

Cutting Benefits Does Not Increase Employment - https://ritholtz.com/2021/09/cutting-ui/

With COVID-19 cases surging in many parts of the world, here's a look inside Pfizer's 'variant hunters' – those scientists who are trying to stay ahead of the fast-mutating virus - https://www.statnews.com/2021/08/30/inside-pfizer-labs-variant-hunters-race-to-stay-ahead-of-pandemic-2/