

The Weekly Snapshot

31 August 2020

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

International equity markets continued their surge higher last week. The benchmark U.S. S&P 500 index climbed 3.3% for the week and reached an all-time high. The weekly gain meant that the U.S. market has risen eight out of the last nine weeks. Markets in Europe were broadly higher as well.

Closer to home, the NZX 50 was also higher by 2.2% for the week although trading volumes were impacted by a series of cyber attacks which forced multiple trading halts through the week. The NZX continues to work with its network service provider Spark and national cyber security partners in order to ensure normal market operations.

What's happening in markets

Last week saw the annual symposium of Central Bankers at Jackson Hole, Wyoming which was attended virtually due to Covid-19. The highlight was Federal Reserve Chairman Jerome Powell's speech on Thursday where he outlined a new approach to monetary policy. In the future, Powell stated that the Federal Reserve will tolerate inflation sitting above its 2% target rate for short periods. The impact of this is that the Federal Reserve will likely leave interest rates lower for longer in order to help the economic recovery. This led to a sell-off in bonds with the yield on the 10-year U.S. Treasury bond rising to 0.73%.

Shares in Abbott Laboratories surged higher on Friday when it announced that it had received emergency approval from the US Food and Drug Administration for use of a 15 minute Covid-19 test. The test costs only US\$5 and can be administered by a wide range of health care workers including pharmacists. Fast, reliable and widespread testing is seen as one of the keys to controlling the spread of Covid-19 globally.

Economic data released last week was mixed. The Conference Board in the U.S. announced a sharp fall in consumer confidence in August to 84.8 from a revised level of 91.7 in July indicating that consumers are still pessimistic about the outlook for the economy. U.S. unemployment claims also remain high with 1 million filing claims last week. However July house sales were better than expected, rising 13.9% month on month to a seasonally adjusted level of 901,000. In New Zealand, retail sales fell 15% in the June quarter reflecting the sharp fall in consumer spending during the period of lockdown.

The New Zealand Institute of Economic Research (NZIER) joined the growing chorus of economists predicting negative interest rates in New Zealand in its latest quarterly report. The report noted "**we now expect the Reserve Bank will introduce a negative OCR in May 2021, given its 'whatever it takes' approach to stimulating the economy**". Principal economist, Christina Leung noted in a briefing that the NZIER doesn't expect the economy to go into a recession, but expects another rate cut by the Reserve Bank of New Zealand by the end of the year.

Lastly, the composition of the famous Dow Jones Industrial Index will change at the end of the month. Standard & Poor's, who manage the index, announced last Monday that three stocks will be dropped and three added to the index. Global oil giant Exxon Mobil, (a Dow component since 1928), Raytheon and Pfizer will be replaced by Salesforce.com, Amgen and Honeywell. The change was, in part, due to a recent 4-1 stock split by Dow component Apple Inc. which reduced the weighting of technology stocks in the index due to its price-weighted methodology.

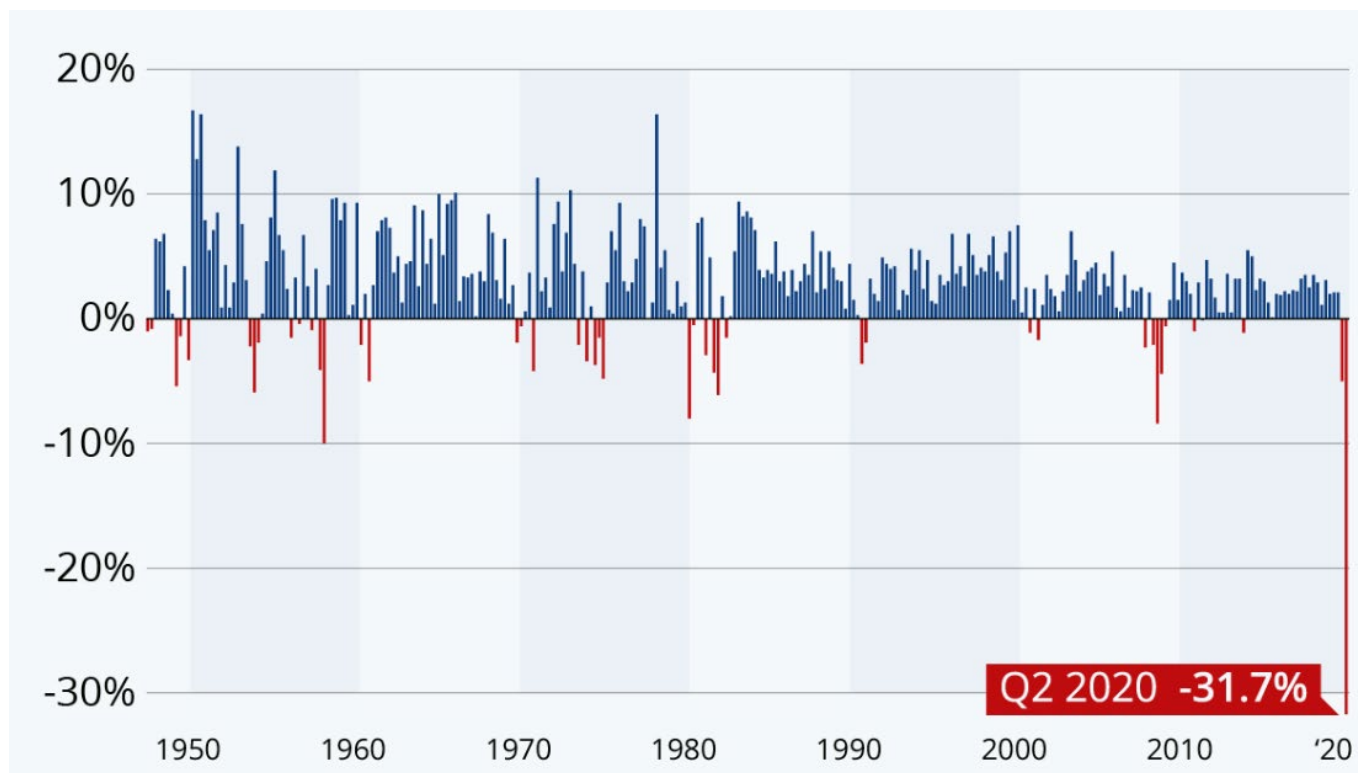
What's on the calendar

It is a relatively quiet week for data this week. On Monday, the Reserve Bank of Australia will announce its interest rate decision with most commentators predicting that cash rate will remain unchanged at 0.25%. On Monday night New Zealand time, European manufacturing data will be released. Later in the week will see the release of the important U.S. Non Farm Payroll survey for August.

Chart of the week

The decline in US GDP has been truly historic and dwarfs all previous economic contractions.

Quarterly Real GDP Growth in the United States



Percent change from preceding quarter; seasonally adjusted at annual rates.

Source: U.S. Bureau of Economic Analysis

Here's what we're reading

Good discussion of the rationale for the changes in the Dow Jones Industrial Index which saw Exxon Mobil replaced by a technology stock after 92 years as a Dow component.

<https://www.cnbc.com/2020/08/25/exxon-mobil-replaced-by-a-software-stock-after-92-years-in-the-dow-is-a-sign-of-the-times.html>

Uber and Lyft are battling against a court case which has affirmed legislation requiring both companies to treat all drivers as employees. This is an existential crisis for two businesses that have not made profits even with inordinately low labour costs.

<https://www.theguardian.com/commentisfree/2020/aug/24/gig-economy-uber-lyft-insecurity-crisis>

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