

The Weekly Snapshot

8 March

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

US equity markets had a volatile close to the week, erasing early-session losses on Friday to close the day up. At one point, the S&P 500 was down more than 1%, before closing up more than 2%.

However, growth stocks continued to broadly underperform last week, weighed down by rising bond yields. For the week, the S&P 500 gained 0.8%, while the NASDAQ 100 fell around 2%, its third consecutive weekly decline. At one point the NASDAQ 100 was nearly 10% off its record high set less than three weeks ago.

Meanwhile, the NZX 50 continued its poor run, recording another weekly loss, falling around 0.4%, while the ASX 200 rose around 0.6%.

What's happening in markets

Bond markets were again front-and-centre last week as further signs of a speedy recovery – buoyed by some strong economic data – saw interest rates continue to move higher.

The rise in US yields came despite remarks from Federal Reserve Chairman Jay Powell who said inflationary concerns are likely to be short-lived as monetary policy remained appropriate. In saying this, Powell did acknowledge the rising long-term rates and risks associated with them.

"We monitor a broad range of financial conditions and we think that we are a long way from our goals. I would be concerned by disorderly conditions in markets or persistent tightening in financial conditions that threatens the achievement of our goals". – Fed Chair Jay Powell

For the week, the US 10-year government bond yield rose nearly 10 points to close around 1.55%. At one point on Friday, it traded above 1.6% to its highest level in a year after data showed the US economy added 379,000 jobs in February, above consensus and a healthy sign after a sluggish period for labour market data.

Bonds were also the centre of attention down under, when the Reserve Bank of Australia on Monday, sought to slow the rising yields when it doubled its daily bond purchases to A\$4 billion from A\$2 billion. Despite an initial decline in interest rates, the 10-year government bond yield traded higher later in the week to close above 1.8%, up more than 80 basis points since the start of the year.

Closer to home, Reserve Bank of New Zealand Governor Adrian Orr said at an economic forum that rising yields are "too early to have any concern" – echoing similar sentiment to other central bankers.

Finally, over the weekend, the US Senate passed the US\$1.9 trillion stimulus package. The bill includes direct payments to Americans, aid for state and local governments and unemployment benefits. The bill will be sent back to the Democratic-led House where it should pass and be signed into law in the coming days.

What's on the calendar

The highlight of the week ahead will be the ECB meeting on Thursday. With rising rates in Europe posing concerns around borrowing costs and a tightening of financial conditions, especially as Europe lags in the rollout COVID-19 vaccines, the central bank may look to two tools: verbal intervention, or a pickup in bond purchases.

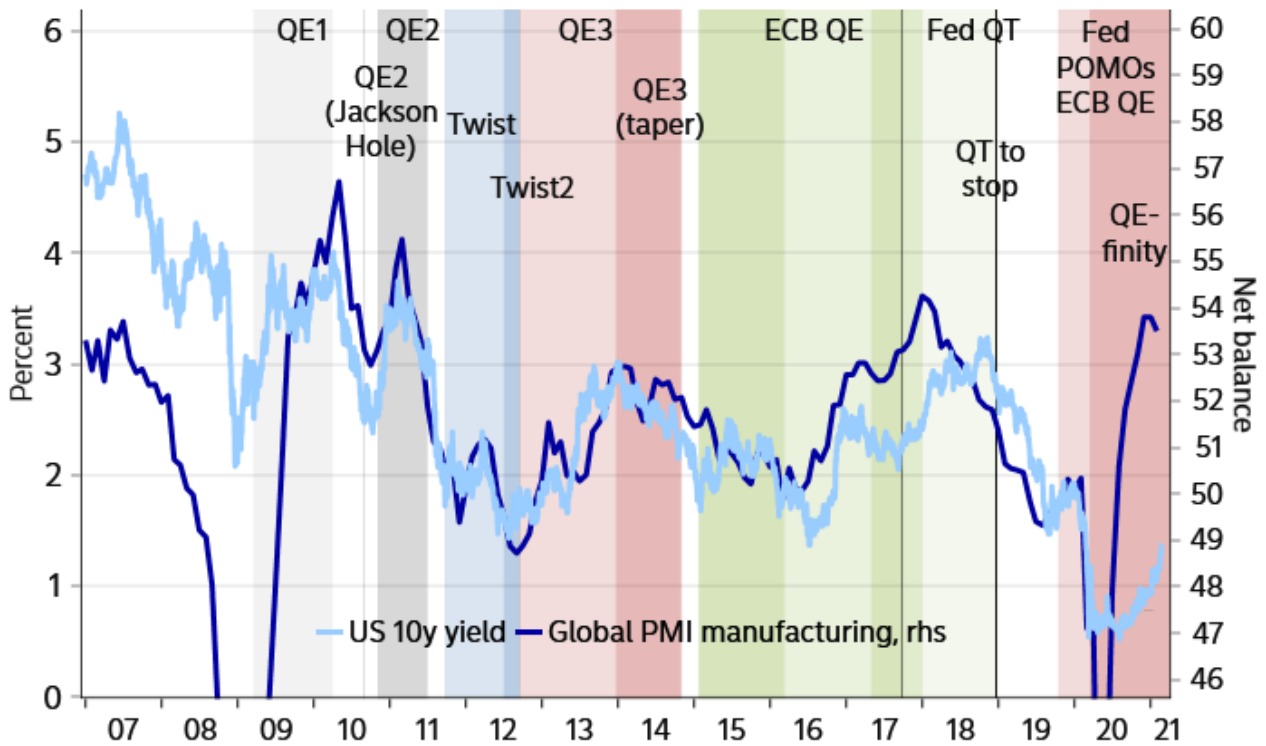
Verbal intervention, or rhetoric to warn against rising yields, may not be enough given momentum in the bond market. However, further bond-buying under the existing Pandemic Emergency Purchase Programme (PEPP) may be able to slow the rising yields, at least for now.

Elsewhere, we will get a read on prices/inflation with US CPI data, China CPI and PPI and New Zealand food inflation numbers.

Also in New Zealand, the preliminary reading of the ANZ Business Confidence survey is due Tuesday.

Chart of the week

Since the 2008/09 Financial Crisis, Global manufacturing PMIs have been a good indicator for the US 10-year yield. If this trend continues, it could spell further upside for interest rates, probably on the back of inflation concerns.



Source: Macrobond and Nordea

Here's what we're reading

The Big Long: More than a decade of zero risk-free rates has lessened the need for cash flow because you don't need to fund the borrowing cost - <https://thereformedbroker.com/2021/02/17/the-big-long/>

The True Costs of Working From Home - <https://www.bloomberg.com/news/articles/2021-02-26/why-remote-workers-spend-more-on-housing-and-rent>

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