The Weekly Snapshot

24 February

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

International equity markets ended a two-week win streak after a Friday selloff saw major benchmarks end the week lower. In the US, the S&P 500, Dow Jones Industrial Average and NASDAQ all ended the week down more than 1%.

The pickup in volatility saw interest rates fall with the US 30-year government bond yield hitting a record low, trading below 1.95%.

What's happening in markets

The coronavirus continued to dominate the news with the death toll nearing 2,500 and more than 75,000 infected. Furthermore, worries that the virus is spreading outside of Mainland China came when South Korean local media reported the country's first coronavirus death leading to the government putting the country on "red alert." Meanwhile, in Italy, the government said the number of cases spiked from three to 132 in a matter of days.

On Wednesday, minutes from the 29 January Federal Reserve meeting showed officials had already expressed concerns about the social and economic impact of the virus, saying it poses a risk to market volatility and the global growth picture.

> ***"Late in the period, equity prices retraced some of their gains, as concerns about the spread of the coronavirus weighed negatively on risk sentiment… the threat of the coronavirus, in addition to its human toll, had emerged as a new risk to the global growth outlook, which participants agreed warranted close watching," –*** FOMC minutes

In economic data, there were some mixed numbers out of the US: The Philadelphia Fed Index – a measure of regional business growth conditions – rose to its highest level in three years. However, on Friday, the IHS Markit survey showed steep declines in both the manufacturing and service-oriented firms. Of note, the services side fell below 50, a number considered contractionary.

In Australia, there was another solid employment report with 13,500 jobs added in January. However, the unemployment rate did tick higher to 5.3%.

In Europe, data continued to underperform with Germany's ZEW index – a measure of consumer sentiment – falling to 8.7 from 26.7. The consensus was for the index to drop to around 21.

In earnings news, two companies with significant exposure to Asia – HSBC and Coca Cola – noted this past week that the coronavirus will have a significant impact on first-quarter earnings. HSBC "since the start of January, the coronavirus outbreak has created significant disruption for our staff, suppliers and customers," while Coca Cola said the slump in sales to China could weigh on revenue by 1% to 2%.

The Democratic nominee race continued on Saturday with the Nevada caucuses, which saw Senator Bernie Sanders score a resounding victory, winning nearly 50% of the votes. The results put Sanders well in the driver's seat. The poor showing from Senator Elizabeth Warren (~10%) – a candidate vying for the left-of-centre lane along with Sanders – puts her campaign in doubt ahead of South Carolina (29 February) then Super Tuesday (3 March) – a day when around one-third of the country votes.

What's on the calendar

The coronavirus will remain front and centre this week as concerns around global growth and trade heighten as the movement of goods in and out of China remains limited.

On Wednesday, earnings from Rio Tinto – long-considered a bellwether of the mining sector – will give further indication of the economic impact the virus is having on the mining sector.

On the New Zealand economic data calendar, retail sales for the final quarter of 2019 will be released on Monday and should show that New Zealand consumers are still spending, despite concerns around the global economy. Then on Thursday, the ANZ Business Confidence may give investors an insight into how New Zealand businesses are doing amid the coronavirus outbreak.

Finally, the Democratic race continues with the South Carolina primary on Saturday. The state has long been seen as a stronghold for former Vice President Joe Biden, but should Sanders pull off an upset, Biden may consider dropping out to open up the moderate lane, especially after poor showings in the first three states.

Chart of the week

Nearly 20% of the total market cap of the S&P 500 is held by just five companies, underscoring the importance, or influence they have on the broader price of the popular index. In fact, the two biggest companies, Apple and Microsoft, make up 10% of the index.



Here's what we are reading

This is an interesting look into how fractured Italy is – a country where its EU membership is more unpopular than any other country (be sure to hit translate!). - https://www.spiegel.de/international/europe/country-on-the-brink-a-search-for-the-source-of-italy-s-malaise-a-43adf0e8-bfab-4f8c-9340-3f7f3059babe

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