The Weekly Snapshot

2 March

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

International equity markets fell sharply last week as the fallout from the coronavirus sparked wide-spread selling. Indices in the US all closed down more than 10%, with the Dow Jones Industrial Average and S&P 500 recording their seventh consecutive losing session on Friday. In New Zealand, the NZX 50 fell around 7% last week, its worst week since the financial crisis.

Meanwhile, bond prices rose, pushing yields towards record lows. In the US, the 10-year government bond yield fell to a record low below 1.2%, and in New Zealand, the 10-year equivalent fell around 15 basis points over the week to close at 1.07%, its lowest level in five months.

What's happening in markets

The coronavirus concerns escalated last week as the spread of the disease outside of mainland China raised fears of a potential pandemic that some fear could halt the flow of goods and services leading to a supply and demand shock. This sentiment was shared by Bank of England Governor Mark Carney, who said on Friday that supply chains "are getting a little tight. That's lower activity."

In Europe, at least ten countries have reported cases of the virus, with Italy being the worst hit with more than 1,000 confirmed cases.

Meanwhile, the US reported its first coronavirus death, leading to heightened travel restrictions to the country. Furthermore, on Thursday, California Governor Gavin Newsom said the state is monitoring more than 8,000 people who arrived on flights from Asia. The state currently has nearly 60 confirmed cases, including those who were repatriated from China and the cruise ship that was docked up on Yokohama, Japan.

New Zealand reported its first case of coronavirus. Prime Minister Jacinda Ardern said the person was in improving condition. It is believed the person had travelled from Iran via Bali.

All told, the World Health Organization said last week that the number of *new* cases outside of mainland China exceeded those in China. According to the WHO, as of Friday, there were now 2,790 cases in 37 countries, and 44 deaths outside of mainland China.

The severity of the equity market selloff marked several milestones last week:

1. Stock indexes in Europe and the US entered into 'correction' territory, a decline of more than 10% from a recent high.
2. The S&P 500 marked its fastest ever correction, taking just six sessions to fall 10% from its 19 February high.
3. The Dow Jones Industrial Average had two daily declines of more than 1,000 points.
4. The NZX 50 recorded its worst week since the global financial crisis.

The coronavirus worries saw interest rate markets begin to price in cuts from central banks. In the US, according to CME data, a rate-cut in March is almost fully priced in; last week the probability was less than 10%. Furthermore, Federal Chair Jerome Powell, in a rare statement, said the central bank was "closely monitoring' the situation.

The risk-off tone throughout the week saw the New Zealand dollar weaken considerably, especially against the US dollar and the Japanese yen.

Putting last week into perspective

Despite last week's selloff, equity markets are still up over the past 12 months. In fact, since 1 March 2019, the NZX 50 is up around 20%. While in the US, the S&P 500 is more than 5% higher over that period and the NASDAQ more than 10%, in local currency terms.

Furthermore, diversified funds, including those at ANZ Investments, hold bonds, which rose over the past few weeks.

What's on the calendar

Once again, the coronavirus will capture most of the news as it continues to spread outside of mainland China.

In economic data this week, the US employment report on Friday is expected to show the US economy added around 160,000 jobs in February. However, if the coronavirus spread shows no signs of slowing, economic data could be brushed aside.

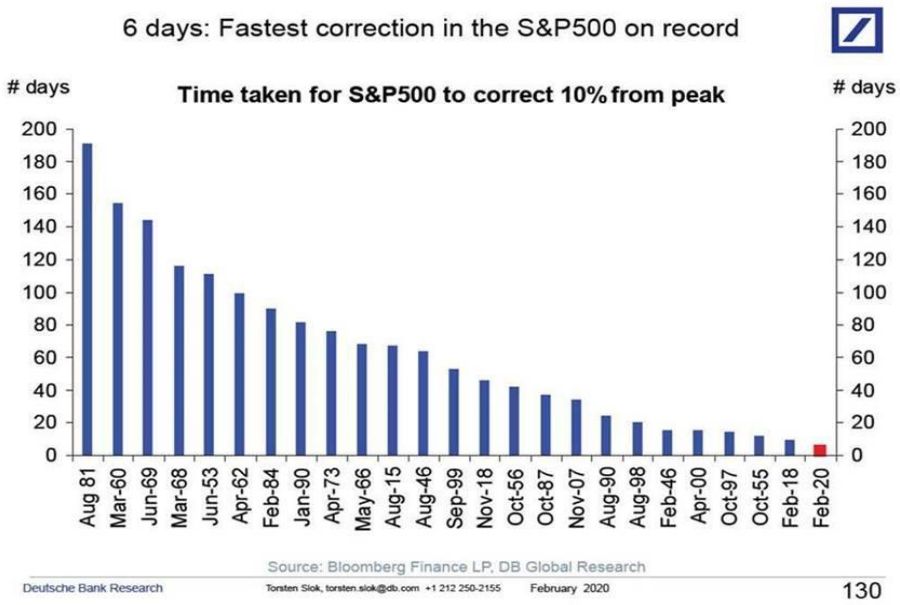
On Tuesday, the Reserve Bank of Australia meet, one of the first major central banks to meet since the virus escalated. A few weeks ago a rate-cut seemed highly unlikely, but as the economic fallout for countries with close trading ties to China, pressure is mounting on the central banks to cut.

In politics, the biggest day in the Democratic primary race comes on 3 March with Super Tuesday, where more than one-third of the delegates are up for grabs as voters in 14 states and one territory head to the polls. All eyes will be on former New York Mayor Mike Bloomberg, who will appear on ballots for the first time.

Given the breadth of the field and the number of delegates up for grabs, some campaigns could be at risk with poor showings on Tuesday. Those most at risk are Senator Elizabeth Warren and former South Bend, Indiana Mayor Pete Buttigieg. Warren is running along similar party lines to Sanders, while Buttigieg is competing in the crowded moderate Democratic lane.

Chart of the week

Here's the list of all market corrections for the S&P 500 and how many trading sessions each took.



Here's what we are reading

Ben Carlson of Ritholtz Wealth Management put together his 12 things that won't help you during a market correction - https://awealthofcommonsense.com/2020/02/12-things-that-wont-help-you-during-a-market-correction/

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