

The Month Ahead – September 2023

Global equity markets faced some headwinds in August, ending for now what's been a good period for share markets. The S&P 500 is on track to end a streak of five straight monthly gains, while the high-flying NASDAQ 100, which at one point was up more than 40% this year, is also on track to end the month lower.

Australasian markets were in a similar position, with the NZX 50 and ASX 200 both set to finish the month lower. The NZX 50 traded to its lowest level of 2023 as rising bond yields weighed on the interest rate-sensitive index.

As we look to September, central bank meetings will be front and centre, with many appearing to be at or near the end of their interest rate hiking cycles. For a look at these central bank meetings, and more, here's ANZ Investments' Month Ahead.

A busy month for central banks – with only some expected to move interest rates

In September, many global central banks meet where it is expected several will keep interest rates unchanged, reflecting the belief that inflation – in their eyes – is slowing to a point where they are comfortable in a 'wait and see' mode.

In the US, the Federal Reserve (the Fed) appears likely to leave its fed funds rate unchanged, but what will be of most interest is what they say, not what they do. The September meeting will also see the Fed provide an update of its economic projections. This forward guidance will provide crucial insight into the path of monetary policy over the coming months – especially as debate remains as to whether the Fed has reached its terminal rate – the rate it expects the fed funds rate to peak in this cycle.

Also expected to keep interest rates unchanged is the Reserve Bank of Australia (RBA). The RBA has kept its key policy rate unchanged at its past two meetings, confident that inflation has peaked, and the economy is showing signs of slowing, which will help bring inflation down. Reinforcing this view was July's employment data, which showed the unemployment rate rose to 3.7% from 3.5%, while the number of full-time workers fell.

Where we could expect to see interest rate rises is in Europe, where the European Central Bank (ECB) and the Bank of England (BoE) appear to be still in the tightening phase.

After nine straight hikes, ECB President Christine Lagarde said in July that a pause was on the cards for September but added that "it would not necessarily be for an extended period of time". Given this message, the market is pricing in about a 50% chance of a further 25 basis point hike. Meanwhile, in the UK, the BoE is all but set for another 25 basis points as it struggles to break the back of inflation, which is one of the highest of all developed economies.

New Zealand's economy expected to have grown in Q2

After back-to-back quarters of negative growth (a technical definition of a recession), it is expected the New Zealand economy bounced back in the second quarter, when Q2 GDP data is released on 21 September.

The New Zealand economy has been showing signs of waning this year with spending across the board slowing as households struggle with rising mortgage repayments. This was partly confirmed by the news that retail sales fell for the third straight quarter and the fifth decline in the last six quarters.

However, with signs the house price sell-off is slowing, a pickup in immigration, and Cyclone Gabrielle recovery spending, it is expected the economy expanded in the second quarter.

We remain defensive amid ongoing uncertainty

At a tactical level, we remain underweight to global equities and overweight to domestic and international fixed interest. These positions reflect the ongoing uncertainties and potential challenges financial markets could face over the medium term.

Our view is that the global economy will start to slow into the back end of 2023 and into 2024, as the cumulative effect of the interest rate hikes weigh on global activity. In this scenario, we can expect equities to face headwinds, while bonds should outperform.