

MARKET UPDATE: RALLY PAUSES AS MARKETS WEIGH UP LATEST VIRUS DEVELOPMENTS

18th May 2020

LAST WEEK – KEY TAKEAWAYS

Markets: Uncertainty weighs on shares

- Global shares fell at the start of the week after new coronavirus cases were reported in the Chinese city of Wuhan (where the virus originated) and the South Korean capital of Seoul;
- The markets also had to contend with rising tensions between the US and China, as President Trump continued to blame China for the pandemic. (see Global section below)
- **Omnis view: Any indication of a second wave of virus cases in the first countries to ease lockdown restrictions will rattle the markets as the restart of business activity is critical to the economic recovery. The markets are likely to remain sensitive to hurdles that arise as we gradually return to normality.**

UK: Growth contracts at record level in March

- The UK economy shrank by 5.8% in March, the biggest drop since the Office for National Statistics started measuring monthly growth figures in 1997¹;
- The pound weakened against the US dollar as Brexit negotiations stalled over EU demands that the UK apply similar regulatory standards in areas including employment and the environment.
- **Omnis view: The fall in growth was widely expected so it had a limited impact on UK shares. As with the US and European figures reported recently, worse could be to come in the second quarter as the country spent most of April in lockdown. Meanwhile, with the deadline for requesting an extension at the end of June fast approaching, the state of Brexit negotiations adds further uncertainty to the UK economic outlook.**

US: Economy may need more support, says Fed Chair

- There was more bad news for the markets when Jay Powell, the Chair of the Federal Reserve (US central bank), warned about the potential damage the pandemic has caused to the US economy;
- Mr Powell claimed the government and the central bank might have to introduce new measures to support the domestic economy;
- Further evidence of the economic toll taken by the virus emerged as spending by US shoppers dropped by 16.4% in April².
- **Omnis view: While the Fed still has room to manoeuvre, it is likely that additional measures will also be required from the government. Talks continue about plans to increase spending, although the Republican party is unlikely to agree to a \$3 trillion package proposed by the Democrats.**

Global: Trump stokes tensions with China

- US President Donald Trump ordered a pension fund managing money on behalf of state employees to stop investing in Chinese companies which the White House claims pose a risk to national security;
- President Trump also threatened to ‘cut off the whole relationship’ with China and limit access to American suppliers for Chinese technology firm Huawei.
- **Omnis view: The last thing the markets need at the moment is uncertainty caused by tensions between the world’s biggest economies. However, with President Trump facing accusations of mishandling the coronavirus crisis and a presidential election later in the year, whether he tempers his rhetoric remains to be seen.**

¹ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/januarytomarch2020>

² https://www.census.gov/retail/marts/www/marts_current.pdf

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Oil: Producers announce additional cuts

- Oil prices rose after Saudi Arabia, the United Arab Emirates and Kuwait pledged to cut production in June to make up for the drop in demand caused by the coronavirus pandemic.
- The International Energy Agency provided more support for oil prices by predicting supply would fall to its lowest level in nine years in May ³.
- **Omnis view: Production cuts and an increase in demand as global economic activity picks up again should boost oil prices and subsequently energy-heavy markets like the FTSE 100.**

LOOKING AHEAD - TALKING POINTS

Economic data

- Monday- Japanese economic growth in the first quarter;
- Tuesday- UK unemployment in March;
- Wednesday- UK inflation rate (the rate at which prices rise) in April;
- Friday- Japanese inflation rate in April.

Omnis Investments is now tweeting updates. Follow us at: @OmnisInvest

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³ <https://www.iea.org/reports/oil-market-report-may-2020>

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