

MARKET UPDATE: UK ASSETS RALLY AS PARLIAMENT BACKS WITHDRAWAL DEAL

28th October 2019

LAST WEEK – KEY TAKEAWAYS

Brexit: Parliament backs withdrawal deal but rejects Boris’ timetable

- UK shares rallied and sterling strengthened against the US dollar after the House of Commons backed the Prime Minister’s Brexit withdrawal deal;
- However, sterling handed back some of those gains after MPs voted against Boris’ plan to rush the legislation through Parliament so the UK could leave the EU on 31st October;
- Boris then said he would give MPs until 6th November to approve the deal if they agreed to hold a general election on 12th December.
- **Omnis view: A general election before Christmas is looking increasingly likely, as the Scottish National Party and Liberal Democrats proposed an alternative date of 9th December which would simply require a parliamentary majority rather than the support of two-thirds of MPs.**

Trade: US and China move towards initial deal

- US shares rose as US officials said they were getting close to agreeing the first phase of a trade deal with China ahead of a potential meeting between US President Donald Trump and his Chinese counterpart Xi Jinping at the Asia-Pacific Economic Cooperation (APEC) summit in mid-November.
- **Omnis view: The trade truce between the US and China appears to be holding for now, although some of the most contentious issues still need to be addressed.**

Europe: Shares climb despite mixed economic data

- European shares hit their highest point this year despite economic data depicting a mixed view of the region’s economy;
- The Purchasing Managers Index- a measure of business activity- rose in the EU and France in October, but it showed activity continued to slow in Germany;
- Meanwhile, the European Central Bank kept interest rates unchanged at its last meeting before Christine Lagarde takes over as President from Mario Draghi.
- **Omnis view: A combination of encouraging corporate earnings, easing of trade tensions between the US and China and the fading prospects of a ‘no deal’ Brexit appear to be helping European markets overcome the region’s faltering economy.**

Corporate earnings: Tech firms boost US shares

- There was a further boost for US equities as software developer Microsoft, chipmaker Intel, payments processor Paypal and auto manufacturer Tesla beat earnings forecasts in the third quarter;
- However, online retailer Amazon and industrial bellwether Caterpillar fell short of expectations.
- **Omnis view: Earnings season is going better than expected- according to research firm FactSet, 40% of US companies have reported as of Friday 25th October, and 80% have beaten estimates. The decline in earnings is now forecast to be 3.7%, rather than 4.8%¹.**

¹ <https://insight.factset.com/sp-500-earnings-season-update-october-25-2019>

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LOOKING AHEAD - TALKING POINTS

Economic data

- Wednesday- US economic growth in the third quarter of 2019;
- Thursday- EU economic growth in the third quarter of 2019, unemployment rate in September and inflation rate in October;
- Friday- Japanese unemployment rate in September; US non-farm payrolls (job creation) in October

Monetary policy

- Wednesday- Federal Reserve (US central bank) interest rate decision.

Corporate earnings

- US tech firms Apple, Alphabet (parent company of Google) and Facebook and UK bank Lloyds are among the companies reporting annual results this week.

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