

MARKET UPDATE: STERLING STRENGTHENS AS MPS VOTE FOR GENERAL ELECTION

4th November 2019

LAST WEEK – KEY TAKEAWAYS

UK: General election set for 12th December

- Sterling strengthened against the US dollar as MPs overwhelmingly voted to hold a general election on 12th December once they were satisfied that the risk of a ‘no deal’ Brexit had been averted;
- At the start of the week, the government accepted the EU’s offer of an extension to the Article 50 deadline until 31st January.
- **Omnis view: The Conservative party has a sizeable lead in the opinion polls ahead of the election which would give the Prime Minister the parliamentary majority he needs to deliver his version of Brexit. However, Boris’ predecessor went into the election in 2017 in a similar position and ended up losing seats, and opposition parties will campaign on a second referendum, so the result is far from certain.**

US: Shares rally as Federal Reserve cuts interest rates

- US shares hit a record high as the Federal Reserve (the US central bank) lowered interest rates by 0.25% for the third time in 2019;
- There was further good news for the US market as the country’s economic growth in the third quarter of the year and job creation in October both beat forecasts.
- **Omnis view: US shares welcomed the Federal Reserve’s decision, but they may need to start looking elsewhere for catalysts, especially if the domestic economy remains strong, as the Fed signalled rates would remain unchanged for the foreseeable future.**

China: Manufacturing activity picks up in October

- Chinese shares rose after activity in the country’s manufacturing sector grew at the fastest rate since February 2017 in October, boosted by an increase in exports (goods produced domestically but sold abroad).
- **Omnis view: The Chinese manufacturing sector seemed to benefit from US concessions which exempted 400 products from tariffs (taxes on goods imported from abroad). Meanwhile, the two sides may have to wait to sign the first phase of a trade deal because protests forced Chile to cancel the Asia-Pacific Economic Cooperation (APEC) summit where US President Donald Trump and his Chinese counterpart Xi Jinping were due to meet.**

Japan: Central bank continues battle to create inflation

- The Bank of Japan (BoJ) left interest rates unchanged at its latest meeting but hinted it would be prepared to cut rates further to boost inflation (the rate at which prices of goods and services rise).
- **Omnis view: The BoJ is keeping interest rates low in an effort to raise prices, as a certain degree of inflation, which has remained subdued in Japan over the last few years, is healthy for the economy.**

Corporate earnings: Tech shares lead the way

- As earnings season continued, iPhone maker Apple and social media platform Facebook beat forecasts in the third quarter, but Alphabet (parent company of Google) fell short of expectations.
- **Omnis view: In its latest update, research firm FactSet revealed that just over 70% of US companies had reported results as of 1st November and 76% beat forecasts. The decline in earnings improved again, from 3.8% the previous week to 2.7% last week¹.**

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

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LOOKING AHEAD - TALKING POINTS

Economic data

- Tuesday- US imports, exports and balance of trade in September;
- Friday- Chinese imports, exports and balance of trade in October;
- Saturday- Chinese inflation rate in October.

Monetary policy

- Thursday- Bank of England interest rate decision.

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