

MARKET UPDATE: MARKETS RALLY AMID OPTIMISM ABOUT ECONOMIC RECOVERY

8th June 2020

LAST WEEK – KEY TAKEAWAYS

Markets: Brighter outlook drives shares

- Optimism about the global economic recovery following the coronavirus pandemic helped to drive shares higher, as US employment unexpectedly rose in May and the European Central Bank announced new support measures (see below);
- There was further good news for the markets as countries continued to ease lockdown rules, although tensions lingered between the US and China as they argued over passenger flight restrictions.
- **Omnis view: The disconnect between rising markets and weak underlying economies seemed to narrow last week as steps taken by governments and central banks to offset the impact of the pandemic started to have the desired effect. If economic activity continues to pick up without causing a surge in new virus cases, then the outlook should remain positive.**

US: Companies start rehiring in May

- US companies caught the markets by surprise by adding two and a half million jobs in May, according to the non-farm payroll report, while the unemployment rate fell to 13.3%¹.
- **Omnis view: The unemployment rate remains high, but it bodes well for the country's economic recovery that companies have started hiring again earlier than expected, thanks to the unprecedented measures launched by US politicians and the Federal Reserve (US central bank).**

Europe: ECB launches new measures

- The euro strengthened against the US dollar after the European Central Bank (ECB) kept interest rates at record lows and expanded its bond-buying programme by €600 billion to help the region's economy recover from lockdown.
- **Omnis view: The ECB also forecast the EU economy would shrink by 8.7% this year, putting further pressure on member states to agree on a package of economic support measures worth €750 billion proposed by the European Commission². However, coming to a consensus on the terms is proving difficult.**

UK: Brexit talks end in deadlock

- The latest round of Brexit negotiations ended in another stalemate, as the UK and the EU failed to agree on key issues including business regulations and fishing rights;
- However, both sides hinted that they were prepared to make concessions, with the UK willing to accept some trade tariffs (taxes on goods imported from abroad) and the EU showing flexibility over state aid rules.
- **Omnis view: Unless the UK and EU agree to extend the transition period past 31st December before the end of June, Brexit uncertainty will return as the likelihood of the UK leaving the EU without a free trade agreement will increase again.**

LOOKING AHEAD - TALKING POINTS

Economic data

- Wednesday- Chinese inflation rate in May;
- Friday- UK economic growth in April.

¹ <https://www.bls.gov/news.release/empsit.nr0.htm>

² <https://www.ecb.europa.eu/press/pressconf/2020/html/ecb.is200604~b479b8cfff.en.html>

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Monetary policy

- Wednesday- Federal Reserve interest rate decision.

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