

MARKET UPDATE: HOPES FOR A VACCINE HELP TO PUSH SHARES HIGHER

20th July 2020

LAST WEEK – KEY TAKEAWAYS

Markets: Shares climb as earnings season starts

- Global shares ended the week higher thanks to reports of successful trials of coronavirus vaccines by two pharmaceutical companies, the prospect of further support measures from the Federal Reserve (US central bank) and an encouraging start to earnings season from US banks (see ‘Corporate profits’);
- However, new infections in several US states and the reintroduction of lockdown restrictions hovered over the markets, while the reaction by Chinese shares to the country’s return economic growth in the second quarter caused concern among investors (see ‘China’).
- **Omnis view: Developments associated with the recovery from the pandemic continue to dominate the markets, as investors wait for governments and central banks to announce additional support measures. Meanwhile, corporate earnings will be closely monitored over the coming weeks, not just second quarter results (which are expected to be poor) but also the outlook for the rest of the year.**

UK: Economic recovery disappoints in May

- [While the UK economy started growing again in May, it came in well below expectations at 1.8% compared to April when it dropped by a record 20.3%.](#)
- **Omnis view: Although the revival of growth is reassuring following such a sharp decline in April, the fact it fell short of forecasts suggests the economic rebound could take longer than previously expected. It might also persuade the government and Bank of England to take further steps to support the recovery.**

EU: Interest rates on hold as talks continue over rescue package

- The European Central Bank kept interest rates on hold and warned considerable uncertainty would hinder the region’s economic recovery;
- Talks continued between EU leaders about the proposed package of support measures worth €750 billion to help member states overcome the economic impact of the coronavirus crisis.
- **Omnis view: There have been signs in the last few weeks that the EU economy is recovering from lockdown as retail sales have picked up and job losses have slowed. The outlook should improve once leaders come to an agreement over the rescue package.**

Japan: Central bank decides against changing interest rates

- The Bank of Japan (BOJ) also met last week and left interest rates unchanged but lowered its forecast for economic growth for the year to March 2021.
- **Omnis view: The BOJ pledged to take additional measures if necessary, which should reassure the markets as central bank support has played a key role in the rally since the correction in February and March.**

China: Shoppers reluctant to resume spending

- Chinese shares fell as concerns about the slow recovery in consumer spending overshadowed the country’s return to economic growth in the second quarter of the year.
- **Omnis view: The return to growth is encouraging for the rest of the world as China was the first country to start easing lockdown restrictions, although sluggish retail sales suggest shoppers are still reluctant to go out and spend their money.**

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Corporate earnings: US banks report strong second quarter results

- As usual, US banks kicked off earnings season with JP Morgan, Goldman Sachs, Citibank, Morgan Stanley and Bank of America beating profit expectations in the second quarter of the year.
- **Omnis view: US banks traditionally set the tone for earnings season so beating forecasts would normally bode well. However, it is early days yet, and [research firm FactSet predicts overall profits among companies listed on the S&P 500 will fall by 44%](#).**

LOOKING AHEAD - TALKING POINTS

Economic data

- Tuesday- Japanese inflation rate in June;
- Friday- UK consumer spending in June; early indicators of business activity in the UK, the US and Europe in July.

Corporate profits

- Tesla, IBM, Twitter and Microsoft are among the companies reporting profits this week.

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