

MARKET UPDATE: ESCALATING TENSIONS BETWEEN THE US AND CHINA WEIGH ON MARKETS

27th July 2020

LAST WEEK – KEY TAKEAWAYS

Markets: US and China diplomatic row overshadows EU rescue package

- The technology-heavy NASDAQ index hit a record high on Monday, and global shares rose after the EU announced a package of measures to boost the region's economic recovery from the coronavirus crisis (See Europe section);
- However, markets finished the week lower after tensions resurfaced between the US and China as they ordered each other to close consulates and the number of people claiming unemployment benefits in the US started rising again (see US section);
- **Omnis view: The outlook for the US looks uncertain, as tensions intensify with China, the number of new virus cases continues to increase and with campaigning ahead of November's presidential election due to commence. The extreme valuations of US shares are getting harder and harder to justify as a result.**

UK: Encouraging signs of economic recovery

- Spending by UK shoppers recovered at a faster pace than expected in June, and early estimates of business activity in July suggested it expanded again for the first time since lockdown;
- Meanwhile, the latest round of Brexit negotiations ended in stalemate, and EU chief negotiator Michel Barnier warned that a lack of progress on key issues such as business regulations and fishing rights could prevent the two sides from concluding a free trade agreement.
- **Omnis view: The increase in consumer spending and business activity bodes well for the UK's economic recovery, but Brexit uncertainty looks set to continue hovering over the domestic markets for the time being as the Prime Minister's hopes of agreeing a deal by the end of July look unlikely. Further talks take place this week.**

US: Jobless claims climb again

- [The number of new people claiming unemployment benefits unexpectedly rose to 1.4 million last week after steadily falling from the peak in March for more than three months;](#)
- There was some good news for the country's economy as business activity marginally moved into positive territory in July for the first time since the start of the year.
- **Omnis view: The increase in benefit claims is a concern for the US economy as new infections and the return of lockdown restrictions set back its recovery. Talks continue over further support measures, although disagreements between the Republicans and Democrats, and among Republicans, are delaying progress.**

Europe: Rescue package boosts shares

- European shares rose and the euro strengthened against the US dollar as EU leaders finally reached an agreement on a package of support measures worth €750 billion, made up of €390 billion of grants and the rest in low interest rate loans, to help offset the impact of the coronavirus pandemic on the region's economy.
- **Omnis view: While the markets will welcome this package as an important first step by the EU, the scope is relatively small compared to the measures introduced by other countries such as the US.**

LOOKING AHEAD - TALKING POINTS

Economic data

- Thursday- EU unemployment rate in June; US economic growth in the second quarter;
- Friday- Japanese unemployment rate in June; EU economic growth in the second quarter.

Central banks

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

Corporate earnings

- Technology firms Facebook, Amazon, Apple and Alphabet (parent company of Google) are among the companies reporting second- quarter profits this week.

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