

MARKET UPDATE: EVIDENCE OF LOCKDOWN'S IMPACT ON US AND EU ECONOMIES WEIGHS ON SHARES

3rd August 2020

LAST WEEK – KEY TAKEAWAYS

Markets: Shares fall as growth drops in US and EU

- Global shares fell towards the end of the week as evidence emerged of the toll taken by the coronavirus pandemic on the US and EU economies in the second quarter (See US and Europe sections);
- However, US shares ended the week slightly higher after encouraging results from technology firms announcing profits for the second quarter (See Corporate profits section);
- Meanwhile, the US dollar weakened against the pound and the euro due to concerns about the country's economic recovery, the rate of new infections and political uncertainty ahead of the US presidential election.
- **Omnis view: While the falls in growth were extreme, they were no worse than expected as both the US and EU spent much of the second quarter in lockdown. Nonetheless, demand for safe haven assets such as government bonds rose.**

US: Economy contracts at record pace

- [The full force of lockdown was felt by the US economy in the second quarter as it shrank by nearly 33% compared with a year previously, the biggest drop in over 75 years although slightly less than forecast;](#)
- The Federal Reserve (US central bank) decided against changing interest rates at its latest meeting and warned that the US economy would remain sensitive to the effects of the coronavirus pandemic;
- The government-funded pandemic unemployment benefit package, which has provided an additional \$600 per month to an estimated 25 million Americans, came to an end on Friday.
- **Omnis view: Fed chair Jay Powell pledged to keep supporting the economy, but he claimed further government spending would be required too. However, politicians are struggling to agree on the terms of a new package, and the Democrats rejected the latest proposal of measures worth \$1 trillion by the Republicans.**

EU: Economic growth hits 25 year low

- [The impact of the pandemic also emerged in the EU where growth dropped by 14.4% in the second quarter compared with a year previously.](#)
- **Omnis view: While the EU's economic recovery seemed to be underway and received a boost after a package of rescue measures was finally agreed on 20th July, a second wave of infections in several countries may slow it down, especially those like Spain that rely on tourism.**

Corporate earnings: Strong showing from technology sector

- Shares rose in Facebook, Amazon and Apple as they beat expectations when reporting company profits for the second quarter of the year;
- Google's parent company Alphabet also exceeded forecasts, but its shares fell due to a decline in advertising revenue.
- **Omnis view: Tech firms have been one of the driving forces behind the markets over the past few months (along with government and central bank support) and helped the S&P500 rally at the end of the week following the disappointing news about the economy. [However, overall earnings for US shares are still expected to fall by 35.7% according to research firm FactSet.](#)**

LOOKING AHEAD - TALKING POINTS

Economic data

- Wednesday- Final estimates of UK, EU and US business activity in July;
- Friday- Chinese imports, exports and balance of trade in July; US non-farm payrolls (job creation) in July.

Central banks

- Thursday- Bank of England interest rate decision.

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