

MARKET UPDATE: US SHARES RALLY AS FEDERAL RESERVE ADJUSTS KEY POLICY

1st September 2020

LAST WEEK – KEY TAKEAWAYS

US: Fed modifies inflation target

- US shares hit a record high after the Federal Reserve (US central bank) announced it would change its policy for managing inflation (the rate at which prices rise), allowing it to climb above 2% if it has previously fallen short of that target;
- There was further good news for the US stock markets as the number of coronavirus infections continued to drop and more progress was made towards developing a vaccine.
- **Omnis view: While the Fed has adjusted its inflation policy to help offset the impact of the pandemic on the US economy, shares rallied because interest rates are likely to remain lower for longer. Lower rates also reduce demand for the US dollar and it subsequently weakened against other major currencies.**

Trade: US and China commit to phase one deal

- The US and China reaffirmed their commitment to implementing the first phase of the trade deal agreed at the end of last year following a virtual meeting between senior officials on Monday 24th August.
- **Omnis view: Global markets will welcome this development as it represents a brief thaw in relations between the two sides. Tensions may remain elevated in the lead up to the US presidential election in November, although whether a Democratic government would change its approach to China remains to be seen.**

Japan: Prime Minister resigns

- Japanese shares fell after the country's longest-serving Prime Minister, Shinzo Abe, unexpectedly announced that he would step down due to health reasons.
- **Omnis view: The Prime Minister's announcement weighed on Japanese shares because the policies he has introduced during his tenure to boost the country's economy, including increased government spending and lower interest rates, have been considered favourable to the markets. Investors will closely monitor whether his successor continues with these policies. At present, little change is expected.**

Commodities: Hurricane boosts oil prices

- Oil prices rose as Hurricane Laura brought extreme winds and flooding to the Gulf of Mexico, a major hub for the US oil industry.
- **Omnis view: The potential disruption to supply pushed up oil prices, which is good news for energy-heavy stock markets like the UK's FTSE 100.**

LOOKING AHEAD - TALKING POINTS

Economic data

- Tuesday- EU unemployment rate in July and inflation rate in August;
- Friday- US non-farm payrolls (job creation) in August.

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