

# MARKET UPDATE: NEW INFECTIONS HALT LATEST STOCK MARKET RALLY

22<sup>nd</sup> June 2020

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## LAST WEEK – KEY TAKEAWAYS

### Markets: Good news overshadowed by new infections

- Global shares started the week strongly after the Federal Reserve (US central bank) said it would start buying bonds issued by companies as part of its effort to help the US economy recover from the coronavirus crisis;
- There was more good news for the markets as consumer spending in the US rose sharply in May (see below) and a trial of a steroid in Oxford proved successful in reducing the number of deaths among patients severely affected by the virus;
- However, new cases in the US, China and Germany halted the rally in the second half of the week.
- **Omnis view: The markets appear torn between the positive impact of the steps taken by governments and central banks to support the global economy and the threat of a second wave of infections. Fluctuations may continue in the short term, but further measures look likely and should improve the outlook over the longer term.**

### UK: Interest rates remain at record lows

- The pound weakened against the US dollar after the Bank of England (BoE) decided to leave interest rates unchanged at its latest meeting but expanded its bond-buying programme, known as quantitative easing, by £100 billion;
- Figures published by the Office for National Statistics showed UK shoppers increased spending by 12% in May compared with April, but the number of people claiming jobseeker's allowance rose to 2.8 million in May<sup>1</sup>.
- **Omnis view: BoE officials said they were encouraged by signs that the UK economy was recovering and suggested the slowdown may not be as bad as feared, but the potential long-term damage caused by the pandemic, such as unemployment, justified further support measures.**

### US: Record jump in retail sales in May

- Consumer spending increased by nearly 18% in May compared to a month earlier as lockdown restrictions gradually eased across the country<sup>2</sup>;
- The chair of the Federal Reserve warned there was considerable uncertainty about how long the country's economy would take to recover despite the recent improvements;
- Meanwhile, US President Donald Trump was finalising a proposal to boost government spending by \$1 trillion over the next 10 years on infrastructure projects like roads and bridges.
- **Omnis view: The sharp rise in consumer spending in May is a positive sign for the US economy as it means economic activity is picking up again. However, new cases in several states show that easing restrictions too quickly could require a return to lockdown which would disrupt the recovery.**

### Japan: Central bank boosts business lending

- The Bank of Japan (BoJ) also met and decided against changing interest rates but increased the funding available to banks to boost business lending to 110 trillion yen (nearly £800 billion).
- **Omnis view: The markets should welcome this latest measure from the BoJ as it should help companies survive the coronavirus crisis and protect jobs.**

## LOOKING AHEAD - TALKING POINTS

### **Economic data**

- Tuesday- EU business activity in June; UK business activity in June.

### **Brexit**

- The EU's chief negotiator Michel Barnier provides an update on the latest round of Brexit negotiations on Wednesday.

<sup>1</sup><https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/june2020#claimant-count-experimental-statistics>

<sup>2</sup>[https://www.census.gov/retail/marts/www/marts\\_current.pdf](https://www.census.gov/retail/marts/www/marts_current.pdf)

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