

MARKET UPDATE: SPIKE IN NEW INFECTIONS WEIGHS ON MARKETS

29th June 2020

LAST WEEK – KEY TAKEAWAYS

Markets: US infections overshadow UK and EU recovery

- Global shares fell after a spike in the number of coronavirus infections in several of the US states that were among the earliest to ease social distancing rules, leading other states to announce new restrictions;
- The return of trade tensions between the US and the EU also weighed on the markets, although there was some good news as business activity picked up in the UK and EU in June (see below).
- **Omnis view: Shares remain sensitive to the latest developments, rising in response to signs of economic recovery but falling when new cases emerge which could slow activity again. This pattern is likely to continue until a vaccine or cure materialises. In the meantime, measures introduced by governments and central banks should support the markets.**

Global economy: Business activity picks up

- Business activity recovered faster than predicted in June in the UK and EU and edged closer to the level at which it should start expanding again.
- **Omnis view: The improvement in activity bodes well for both economies and suggests the recovery may be quicker than expected. Whether it continues on this trajectory depends on the UK and EU's ability to contain localised breakouts of the virus.**

Trade: Tensions loom between US and EU

- The US threatened to impose tariffs (taxes on goods imported from abroad) on \$3.1 billion of European products in response to what the World Trade Organisation deemed illegal support for the aircraft industry from the EU.
- **Omnis view: The prospect of trade tensions with the US will cause concern for a regional economy which relies heavily on exports (goods produced locally but sold abroad) and is showing signs of recovering from the pandemic.**

US: Jobless claims fall again

- [The number of people applying for unemployment benefits for the first time continued to fall to 1.48 million, down from 1.54 million the previous week and nearly seven million at the height of the crisis in March.](#)
- **Omnis view: Although at a slower pace than expected, the drop in jobless claims is a positive sign for the US economy as it indicates that activity is picking up again. However, the tightening of lockdown restrictions following the breakout of new infections in several states could slow the recovery.**

Brexit: EU hints at compromise

- Michel Barnier, the EU's chief Brexit negotiator, said he was willing to compromise with the UK on business regulations, one of the key issues holding up negotiations on a free trade deal, but he insisted the UK must reveal its policies for when it leaves the EU.
- **Omnis view: With the deadline about to pass for the UK to request an extension to the transition period, both sides are under pressure to make progress towards an agreement, starting with the latest round of talks which begin today. With the prospect of a hard Brexit back on the table, uncertainty may return to unsettle the markets.**

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LOOKING AHEAD - TALKING POINTS

Economic data

- Tuesday- Japanese unemployment rate in May;
- Thursday- EU unemployment rate in May; US non-farm payrolls (job creation) in June.

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