

MARKET UPDATE: US EQUITIES RALLY AS PROSPECT OF RATE CUT RISES

15 July 2019

LAST WEEK – KEY TAKEAWAYS

US: Dovish Federal Reserve boosts equities

- Federal Reserve chairman Jay Powell warned that economic uncertainty had increased recently in testimony to the US House of Representatives;
- Meanwhile, US inflation marginally beat expectations to increase by 0.1% in June compared to May and by 1.6% compared to a year earlier.
- **Omnis view: US equities hit a record high as Powell’s warning, which appeared to overlook the easing of trade tensions between the US and China and the recent improvement in domestic economic data, raised the prospect of a rate cut at the Fed’s next meeting at the end of July.**



Performance of S&P 500 for week commencing 8th July 2019 (source:ft.com)

UK: Brexit rhetoric weighs on sterling

- Sterling weakened to its lowest level against the US dollar in two years as Brexit rhetoric from both candidates in the Conservative leadership contest weighed on sentiment;
- However, there was better news for the British economy which rebounded from April’s contraction to grow by 0.3% in May.
- **Omnis view: Sterling remains sensitive to Brexit developments. The uncertainty is likely to continue after the new Tory leader is announced on 22nd July, as the window for any possible renegotiation of the withdrawal deal is short due to the House of Commons’ summer recess which starts on 25th July.**

¹ <https://www.bls.gov/news.release/cpi.nr0.htm>

² <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2019>

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LOOKING AHEAD - TALKING POINTS

Economic data

- Monday- Chinese economic growth in the second quarter of 2019;
- Tuesday- UK unemployment in May;
- Wednesday- UK inflation rate in June;
- Friday- Japanese inflation rate in June.

Corporate earnings

- US banks including Citigroup, JPMorgan Chase, Goldman Sachs and Wells Fargo kick off second-quarter earnings season.

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