

MARKET UPDATE: MARKETS REMAIN SENSITIVE TO CORONAVIRUS DEVELOPMENTS

17th February 2020

LAST WEEK – KEY TAKEAWAYS

Coronavirus: Markets await tipping point

- Global shares rallied at the start of the week as the spread of the coronavirus appeared to be slowing;
- However, they handed some of those gains back after China reported a rise in the number of new cases due to a change in the method officials are using to monitor the outbreak.
- **Omnis view: Shares continue to fluctuate according to news of the spread of the virus. The markets are still waiting for new cases to plateau because that will mean it is under control and the risk to global economic growth should start to fade.**

UK: Economy stagnates in final quarter of 2019

- The UK economy did not grow in the fourth quarter of 2019 compared with the previous three months, but it beat expectations to expand by 0.3% in December¹;
- Meanwhile, the pound strengthened against the US dollar after Sajid Javid resigned as Chancellor and was replaced by Rishi Sunak who is considered more likely to increase government spending in the upcoming budget.
- **Omnis view: Brexit uncertainty appeared to weigh on the UK economy at the end of last year as growth in services and construction failed to offset a slowdown in business investment and manufacturing activity. The improvement in December coincided with the Conservative party's comprehensive victory in the general election.**

US: Corporate earnings boost shares

- Company profits helped US shares overcome concerns about the impact of the coronavirus and hit record highs;
- According to research firm FactSet, earnings in the fourth quarter of 2019 are expected to grow for the first time since 2018, and they are forecast to pick up sharply in 2020².
- **Omnis view: Profits are one of the key drivers of share valuations, so the positive outlook has buoyed the markets. However, forecasts could be downgraded if authorities struggle to contain the coronavirus and it continues to hamper global growth.**

Europe: Shares rally despite slowing economy

- European shares rallied even though the region's economy grew at its slowest pace in seven years in the fourth quarter of 2019.
- **Omnis view: Shares reacted positively to what would normally be considered negative news because it increases the likelihood that the European Central Bank will take steps to support the economy, which the markets would welcome. Earnings season for European companies has also been fairly positive to date.**

¹ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/december2019>

² <https://insight.factset.com/sp-500-reporting-earnings-growth-for-the-first-time-since-q4-2018>

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LOOKING AHEAD - TALKING POINTS

Economic data

- Monday- Japanese economic growth in the fourth quarter of 2019;
- Tuesday- UK unemployment rate in December;
- Wednesday- UK inflation rate in January;
- Friday- Japanese inflation rate in January.

Central banks

- Wednesday –The Federal Reserve (US central bank) publishes minutes from its latest meeting.

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