

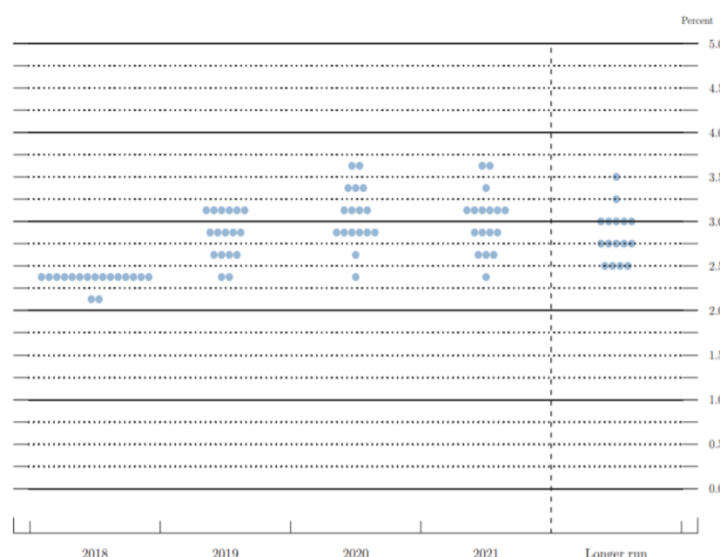
MARKET UPDATE: GLOBAL EQUITIES UNDER PRESSURE AS FED RAISES INTEREST RATES

21st December 2018

LAST WEEK – KEY TAKEAWAYS

US: Fed interest rate decision thwarts seasonal rally

- Global equities fell following the Federal Reserve's decision to raise US interest rates by 25 basis points at its final meeting of 2018;
- The Fed indicated that there may be fewer interest rate hikes next year, but the unwinding of quantitative easing would continue;
- Concerns about a US government shutdown also hovered over markets, as President Donald Trump said he would veto a funding bill if it did not include money for his wall along the Mexican border.
- **Omnis view: The Fed's rate hike put an end to any lingering hopes of a seasonal rally. Even though the pace of monetary tightening should slow in 2019, the dovish tone the markets expected was not forthcoming.**



Federal Reserve's revised forecast for interest rates following its December meeting (source: www.federalreserve.gov)

UK: Bank of England leaves rates unchanged

- The Bank of England (BoE) decided against raising interest rates following its meeting on Thursday;
- The minutes from the meeting warned that greater uncertainty over Brexit coupled with slowing global economic growth weigh on the short-term outlook for the UK.
- **Omnis view: The BoE's latest decision was widely expected, so the market reaction was relatively muted.**

Europe: Italy and EU settle budget differences

- Italian sovereign bonds rallied after the country's coalition government agreed to reduce fiscal spending plans for 2019 to keep its budget deficit within EU rules.
- **Omnis view: While the EU would have preferred greater concessions from Rome, it suspended the excessive deficit procedure which would have led to financial sanctions.**

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Commodities: Global growth weighs on oil prices

- Oil prices hit their lowest point in over a year amid concerns about the impact of the slowing global economy on demand.
- **Omnis view: Higher US interest rates also put pressure on oil prices which become more expensive to other countries when the dollar strengthens.**

LOOKING AHEAD - TALKING POINTS

Monetary policy

- The Bank of Japan publishes the minutes from its recent policy meeting on Tuesday

Economic data

- Japan publishes November's unemployment rate on Thursday.

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