

MARKET UPDATE: RATES, TARIFFS AND EARNINGS WEIGH ON EQUITY MARKETS

31st October 2018

LAST WEEK – KEY TAKEAWAYS

Markets: Monetary policy and trade tensions weigh on equities

- Robust growth in gross domestic product in the third quarter could not prevent US equities handing back this year's gains amid concerns about a slowdown in global economic growth and corporate earnings;
- Chinese equities followed them down despite rallying in response to government intervention, while the renminbi sank to its lowest level against the US dollar since the financial crisis;
- Global tech stocks were hit hardest, and the tech-heavy NASDAQ index fell to multiple-year lows;
- **Omnis view: Rising Interest rates and ongoing trade tensions are taking their toll on global equities. Whether corporate earnings can provide some relief remains to be seen. Periods of volatility like this are to be expected until the mid-term elections in the US.**

Corporate earnings: Shares in industry 'bellwethers' and tech falter

- Despite generally positive results, the prospect of rising costs dragged down shares in construction equipment manufacturer Caterpillar;
- Shares in chipmakers Texas Instruments and AMD fell as both companies warned about a more challenging business environment in the current quarter;
- Amazon and Alphabet exceeded forecasts, but their shares tumbled after they issued downbeat outlooks for future earnings;
- **Omnis view: Last week's results will not improve sentiment towards the equity markets- Caterpillar and Texas Instruments are considered 'bellwethers' for their respective industries, while the tech sector has been a major force behind the bull market.**

Europe: EU orders Italy to resubmit draft budget

- Italian assets rallied at the start of the week following Moody's decision not to downgrade the country's credit rating to 'junk';
- Yields on Italian sovereign debt rose as the coalition government refused to reconsider its fiscal spending plans, leaving the EU no choice but to reject the country's draft budget;
- Meanwhile, the euro weakened against the US dollar as the IHS Markit purchasing managers index fell in October, but it recovered after the European Central Bank meeting went as expected;
- **Omnis view: Italy has three weeks to resubmit its draft budget, and the euro and European debt markets may experience volatility in the meantime.**

Brexit: Tory infighting hinders progress

- Sterling weakened against the US dollar on Monday following reports that Prime Minister Theresa May could face an imminent leadership challenge;
- **Omnis view: Sterling remains sensitive to the latest Brexit developments, as clashes between Mrs May and members of her own party continue to hamper negotiations with the EU.**

Commodities: Oil prices fall as Saudis pledge to boost production

- Oil prices slumped after Saudi Arabia denied it would use crude to deflect accusations about the murder of journalist Jamal Khashoggi and pledged to raise production to record levels;
- **Omnis view: As the Saudis appear to be taking at least some responsibility for the death of Khashoggi, the oil market can switch its attention from geopolitics to the fundamental factors of demand and supply.**

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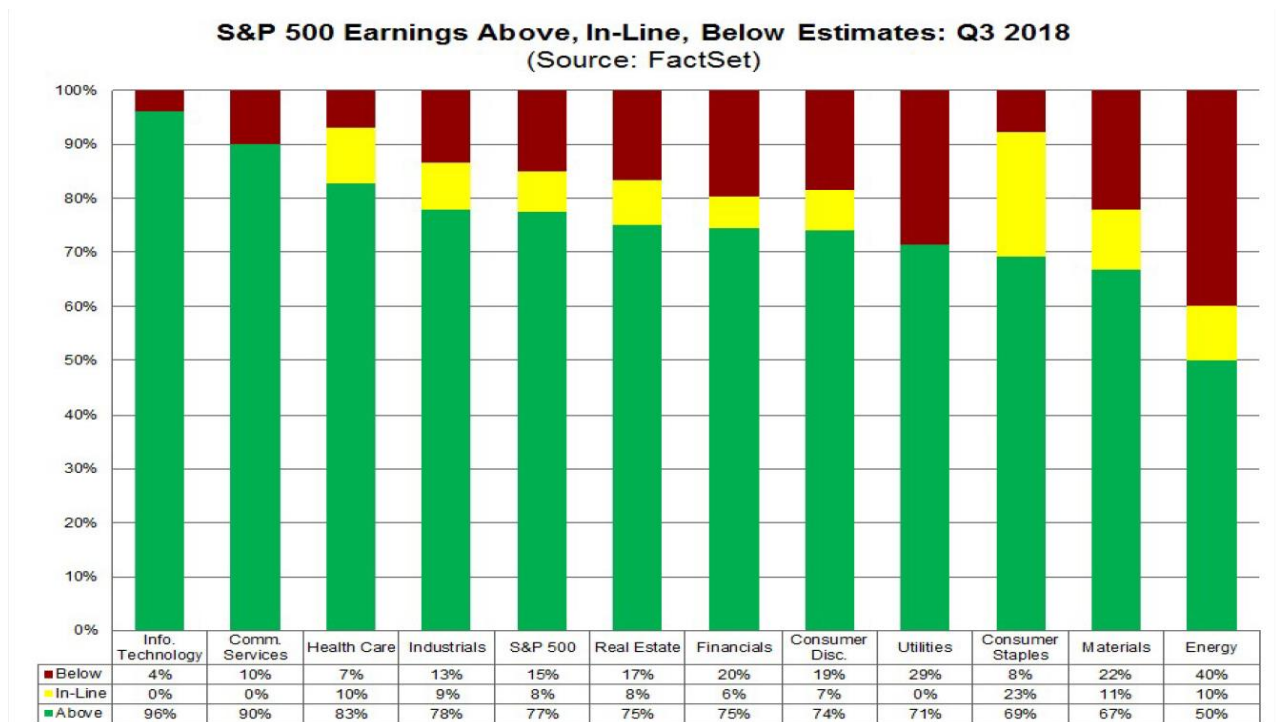
LOOKING AHEAD - TALKING POINTS

Economic data and monetary policy

- The Bank of Japan is expected to leave interest rates unchanged when it announces its latest decision on Wednesday;
- The EU releases September's unemployment rate on Wednesday;
- The Bank of England is not expected to raise interest rates following its meeting on Thursday;
- The US publishes balance of trade data and the non-farm payroll report on Friday;

Corporate earnings

- Apple concludes the earnings reports for the FAANG group of tech stocks on Thursday;



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