MARKET UPDATE: MARKETS RESPOND TO SIGNS OF A SOFTER BREXIT

4th March 2019

LAST WEEK – KEY TAKEAWAYS

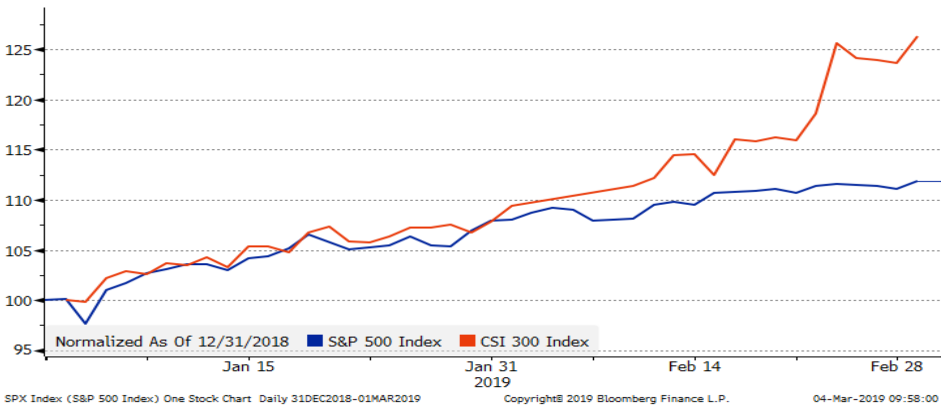
Brexit: May open to Article 50 extension

- Domestic UK equities rose, gilt prices fell and sterling rallied as the Prime Minister Theresa May offered MPs a vote on whether to extend Article 50 to prevent a 'no deal' Brexit if they reject her revised withdrawal deal;
- Meanwhile, Labour leader Jeremy Corbyn pledged to support a second referendum should parliament reject his party's plan for Brexit, which includes a permanent customs union;
- Possibly in response to Labour's move, the pro-Brexit faction of the Conservative party appears to be reconsidering its approach towards Theresa May's deal, prioritising some form of withdrawal from the EU on 29th March over the risk that Brexit is delayed or reversed.
- **Omnis view: The week's developments increase the likelihood of a softer Brexit. Theresa May has promised to hold the next meaningful vote on her withdrawal deal by 12th March.**

Markets: Softening trade rhetoric boosts global equities

- US and Chinese stocks rallied at the start of the week following US President Donald Trump's decision to delay the deadline for the next round of trade tariffs on $200 billion of Chinese goods, perhaps indefinitely;
- **Omnis view: Signs of a thaw between the US and China are welcome: recent data have suggested the standoff has begun to have a visible negative impact on activity in both economies.**

US & Chinese Equity Indices, Performance Year-to-Date



Emerging Markets: China to the fore

- MSCI, the equity index provider, has increased the weighting of China's domestic equity market in its flagship emerging markets index from 0.71% to 3.3%;
- With $1.9tr of funds benchmarked against the index globally, the move could see an estimated $125bn of foreign capital flowing into Chinese equities this year.
- **Omnis view: domestic Chinese equities remain underrepresented in major indices. However, when offshore equities are included, China will soon account for 34.3% of the MSCI index. Given concerns over governance and state intervention in the Chinese equity market, investors should retain a diversified exposure across emerging markets.**

LOOKING AHEAD - TALKING POINTS

Economic data and monetary policy

- Wednesday- US imports, exports and balance of trade for December;
- Thursday- ECB interest rate decision;
- Friday- Chinese imports, exports and balance of trade for February; US non-farm payrolls for February;
- Saturday- Chinese inflation rate for February.

China opens the National People's Congress

- Premier Li Keqiang will set out the government's 2019 economic growth target and five-year development plan at the annual meeting of the National People's Congress in Beijing;
- A GDP growth target around 6% is expected, which represents a meaningful slowdown from 2018's 6.5% target;
- Levels of debt in the Chinese economy have increased rapidly in recent years. The slowdown in growth represents an attempt by the authorities to prioritise the quality of economic growth over its quantity while managing the high levels of debt.

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