

MARKET UPDATE: BREXIT UNCERTAINTY WEIGHS ON UK ASSETS

14th December 2020

LAST WEEK – KEY TAKEAWAYS

UK: Brexit talks continue as deadline looms

- UK shares fell and the pound weakened against the US dollar as the UK and EU struggled to agree a free trade deal with the end of the Brexit transition just over two weeks away;
- Despite direct talks between the Prime Minister Boris Johnson and Ursula von der Leyen, the European Commission president, the two sides remained 'apart on fundamental issues', particularly regulations governing competition;
- Meanwhile, the UK economy grew by [0.4%](#) in October compared with the previous month, down from 1.1% in September and at its slowest pace since May.
- **Omnis view:** Shares in domestically- focused companies, such as those listed on the FTSE 250, suffered the greatest falls as they are more exposed to the UK economy. However, there was some cause for optimism on Sunday after the UK and EU decided they had made enough progress for negotiations to continue this week. Markets subsequently rose and the pound strengthened on Monday morning.

US: White House proposes new relief package

- Building on recent progress between Republican and Democrat politicians, the Trump administration proposed a relief package worth \$916 billion to help the US economy recover from the impact of the pandemic;
- In other news, inflation (the rate at which prices rise), a figure closely monitored by the Federal Reserve (US central bank), rose by [1.2%](#) in November compared with a year previously.
- **Omnis view:** While the latest proposal for economic support is greater than the \$908 billion put forward recently by a cross-party group, it has cut back on some key measures such as funding for unemployment benefits. Whether the Democrats will agree to it remains to be seen.

Europe: Central bank boosts QE

- The euro strengthened against the US dollar after the European Central Bank (ECB) decided to keep interest rates on hold and announced it would expand its bond-buying programme, known as quantitative easing (QE).
- **Omnis view:** The ECB did not set any targets, but it has effectively committed to continuing with whatever level of QE is required to keep interest rates low and support the EU economy's recovery from the pandemic.

Japan: Government launches further economic support

- Japanese shares rose after the government announced it will introduce another round of support measures worth 30.6 trillion yen (roughly £220 billion) to offset the impact of the pandemic.
- **Omnis view:** While this latest package comes at a time when the number of coronavirus cases is rising in Japan, it focuses on investment rather than measures to protect jobs and businesses, which suggests the government does not expect the country to return to lockdown.

China: Exports beat expectations in November

- Chinese exports (goods produced in China and sold abroad) beat forecasts to grow by [21%](#) in November compared to a year earlier, although imports (goods produced abroad and sold in China) fell below expectations to rise by [4.5%](#) over the same period.
- **Omnis view:** The growth in exports is an encouraging sign because China was among the first countries to come out of lockdown, and its economic recovery seems to be enduring. It also suggests demand is strong for Chinese products from the rest of the world, even though restrictions remain tight across much of Europe.

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LOOKING AHEAD - TALKING POINTS

Economic data

- Tuesday- Chinese retail sales and unemployment rate in November; UK unemployment rate in October;
- Wednesday- UK inflation rate in November; early estimate of business activity in December in the UK, EU and US; US retail sales in November;
- Friday- Japanese inflation rate in November; UK retail sales in November.

Central banks

- Wednesday- Federal Reserve interest rate decision;
- Thursday- Bank of England interest rate decision;
- Friday- Bank of Japan interest rate decision.

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This update reflects Omnis' view at the time of writing and is subject to change.

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