

# MARKET UPDATE: US ASSETS RALLY AS MIDTERM ELECTIONS SPRING NO SURPRISES

12- November 2018

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## LAST WEEK – KEY TAKEAWAYS

### US: Equities rally in aftermath of midterms

- US equities rallied after the midterm elections, as the Democrats won control of the House of Representatives and the Republicans increased their majority in the Senate;
- The Federal Reserve left interest rates unchanged following its meeting on Thursday but issued an optimistic outlook for the US economy, increasing the likelihood of a hike in December.
- **Omnis view: The midterm elections failed to spring any surprises, which US equities welcomed. However, the prospect of further fiscal stimulus faded due to the split, so the country's economic growth rate may slow. Meanwhile, a stronger US dollar in response to expectations of tightening monetary policy will not help economic activity.**

### Brexit: Sterling weakens as minister resigns

- Sterling weakened against the US dollar at the end of the week as Jo Johnson, the remain-supporting brother of Boris, resigned from cabinet in protest over the government's handling of Brexit negotiations and called for a second referendum.
- **Omnis view: Sterling will remain sensitive to Brexit developments. We still believe the UK will agree some sort of deal with Europe.**

### Europe: Italian assets under pressure as Rome refuses to concede over budget

- Yields on Italian government debt rose as the EU warned that Italy's budget deficit would breach its 3% limit in 2020;
- Italy's bank index fell as Goldman Sachs downgraded some of the country's biggest lenders to a 'sell' rating.
- **Omnis view: Rome is refusing to back down to the EU for now, so Italian equities and bond yields should remain volatile ahead of the deadline on the 13- November to resubmit the draft budget.**

### Commodities: Oil starting to weigh on equity markets

- Oil prices continued to fall, as news of rising US stockpiles offset an earlier report that the Organisation of Petrol Exporting Countries (OPEC) and its allies were considering cutting production in 2019.
- **Omnis view: Oil prices have been on a downward trajectory since the start of October, and the effect particularly weighs on the energy-heavy UK equity indices.**

## LOOKING AHEAD - TALKING POINTS

### Economic data

- The Office for National Statistics publishes the UK's unemployment rate for September on Tuesday and October's inflation rate on Wednesday;
- The markets will closely monitor Wednesday's release of US inflation data for October for any impact it may have on the monetary policy tightening cycle.

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### US INFLATION RATE



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

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