Market Watch

Back-to-back gains

Summary

- **The S&P500 index rose 6.2% and the Dow Jones rose 6.4% overnight, the third day of back-to-back gains. This was despite jobless claims rising 3.28m in the week ending 21 March.**
- **The third back-to-back gain for equity markets is a positive signal. However, many investors view this as a dead cat bounce rally. Technicals are a useful guide for the near term outlook.**
- **Gold rose and oil weakened. EM and high yield credit spreads tightened as the Fed and ECB talked up their ability to intervene in credit markets.**
- **What to watch: US and European COVID-19 infection rates, fiscal stimulus announcements, China activity data and money market liquidity.**

Background

- The S&P500 index rose 6.2%. The 10-year US Treasury yield declined to 0.84%, although the yield edged higher towards the close of trading. Gold rose and oil declined, but the latter recovered in early morning Asian trade. The USD was weaker against the EUR.
- Jobless claims in the US rose by a massive 3.2m in the week ending 21 March, exceeding forecasts, but not surprising markets. Attention now switches to next week's non-farm payroll data for March. Consensus expectations are for a decline of 125,000, though some forecasters are expecting up to 1 million job losses.
- The ECB announced it will not apply issuer limits on its new emergency QE tranche. This removes the limit on the value of bonds it can buy from individual countries, potentially helping peripheral countries under stress, including Italy.

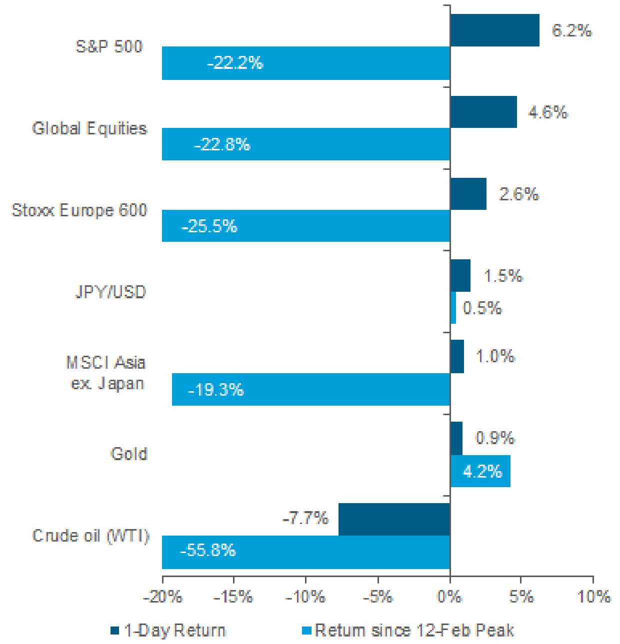
What does this mean for investors?

- Poor economic data in the coming weeks has been largely discounted by markets. This explains, in part, the market rally despite record new jobless claims and a record decline in the March Euro area purchasing managers index to 31.4. Investors are focusing on COVID-19 rather than macro data.
- **Technical watch:** The downward pressure on the S&P 500 index has faded following a rise above key resistance levels at the March 19 high of 2467. This roughly coincides with the upper edge of a declining channel from early March.

  The index now faces tough resistance at 2795 (the 50% retracement of the February-March slide). It is one of the important hurdles that the index needs to clear if this week's rebound is more than a dead cat bounce.

Equities extended rally while Gold rose

Selected market performance on 26 Mar and since 12 Feb



Source: Bloomberg, Standard Chartered

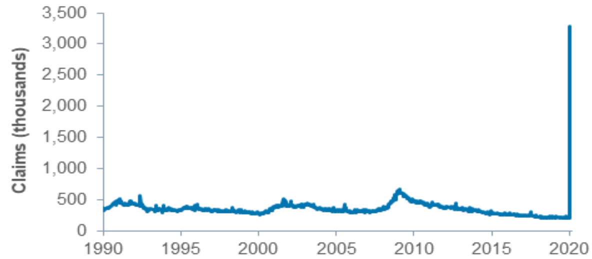
Table of technical support levels for selected assets

Index	Previous close	1st support	% from spot	2nd support	% from spot
S&P 500	2,630.07	2,192.00	-16.7%	2,025.00	-23.0%
Stoxx 600	321.38	269.00	-16.3%	233.00	-27.5%
MSCI Asia ex.Jp	555.42	501.00	-9.8%	435.00	-21.7%
UST-10Yr	0.85	0.63	-0.21	*0.50*	-0.35
Gold	1,628.97	1,555.00	-4.5%	1,451.00	-10.9%

Source: Bloomberg, Standard Chartered

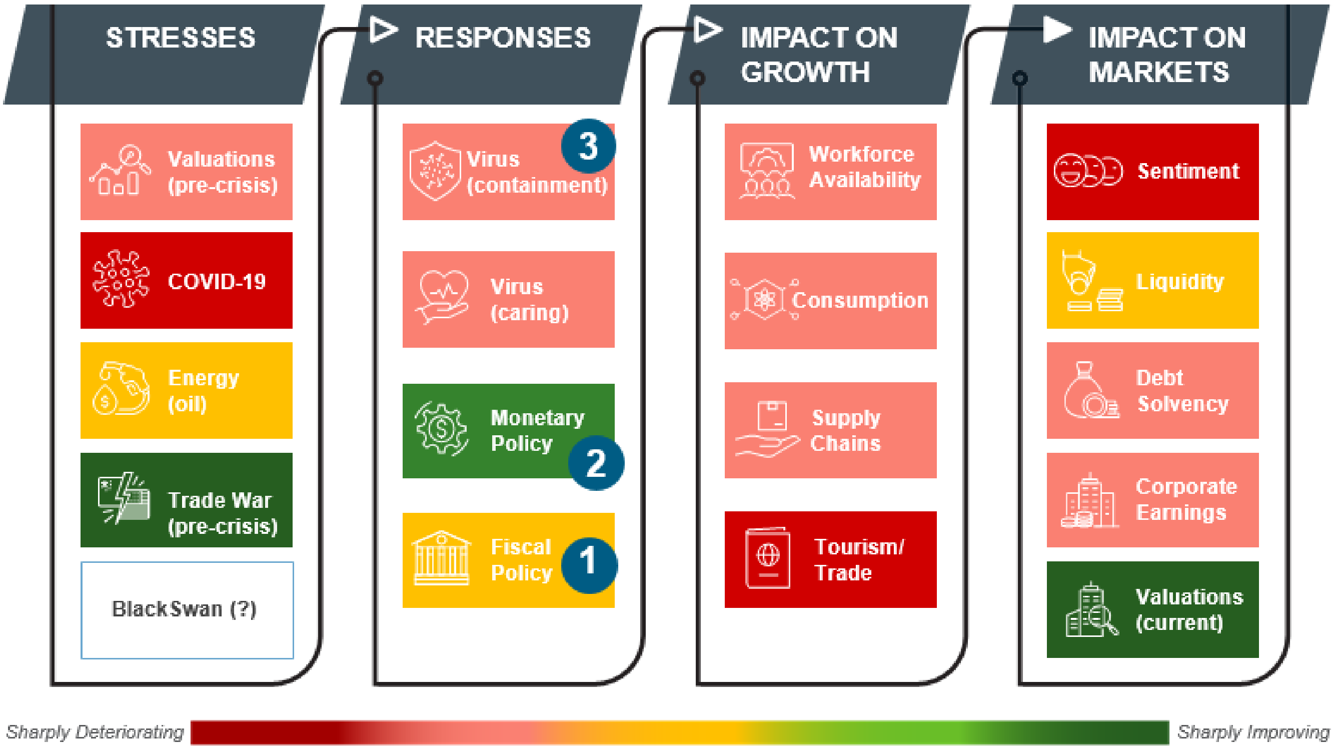
US new jobless claims rise to all-time high

US new jobless claims for week ending 21 March



Source: Bloomberg, Standard Chartered

Things we are watching and our assessment



Source: Standard Chartered

What are markets trying to price?

Markets are trying to balance rising risks to growth due to economic dislocation caused by COVID-19 against an accelerating pace of policymaker action, in our assessment. The continued surge in stocks suggests investors are increasingly pricing in the medium-term positive impact on the economy from the unprecedent fiscal and monetary stimulus measures undertaken in the US, Europe and other major economies in the past few weeks

1) **On fiscal policy**, previous red lines are being crossed, including the US government's willingness to take equity stakes in companies and, in Europe, increasing willingness to move away from a decade of austerity and fixation with balanced budgets. A passage of the US fiscal stimulus would lead us to upgrade our view on the strength of fiscal stimulus.
2) **On the monetary side**, all major central banks have restarted or ramped up bond purchases after cutting rates to 0% (or close to 0%) and the Bank of England crossed its 0.25% lower bound less than a week into the term of its new governor. Monday's extraordinary Fed's announcement of wide-ranging lending against previously non-qualifying collateral may help alleviate some of the worst-hit sectors of the US economy where cash-starved businesses face difficulties as the shutdown continues.
3) **COVID-19 update**: We are seeing increasing signs that the major Euro area countries are showing success in controlling the exponential curve, which is helping to point to an improving global profile. The US curve also flattened, but we are unconvinced that this is the start of a trend. The UK, Japan and Australia curves are far from reassuring at this stage. Not yet ready to downgrade the risks to the global outbreak until we see the US show sustained progress.

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