Market Watch

Congress spoils the Fed party

Summary

- **The S&P 500 fell 2.9%, while gold rose, on the back of US Congress inaction.**
- **The Fed announces "unlimited" asset purchases in fight to combat the Covid-induced slowdown.**
- **What to watch: Liquidity conditions, COVID-19 infections, policy response, China real-time data, retail investor activity in markets, today's business confidence data.**

Background

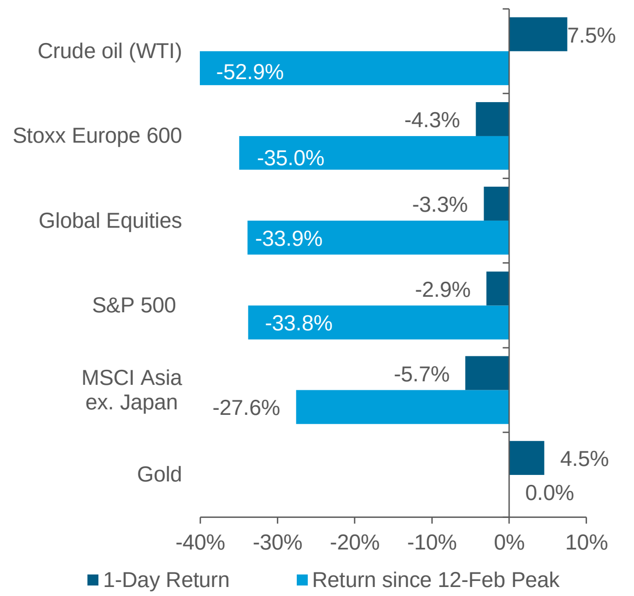
- The S&P500 fell by 2.9% on Monday, on Congress' failure to agree on a stimulus package. The 10-year US Treasury yield fell to 0.76%. Gold jumped 4.5%.
- The Fed rolled out extraordinary measures to ease the credit squeeze in the corporate sector. For the first time, the central bank will back purchases of corporate bonds and expand collateral to include student loans, credit card debt and more, to provide funding to those sectors worst hit by Covid-19.
- Congress failed to agree on a USD 2tn fiscal stimulus package after Senate did not reach the minimum 60 votes needed to pass legislation. Democrats contended the package did not provide enough support to states and hospitals, while not posing enough restrictions on large firms. A revote is expected to take place by the end of this week.
- Lastly, in another blow to Japan's ailing economy the International Olympic Committee (IOC) has decided to postpone the Tokyo 2020 Olympics.

What does this mean for investors?

- The Federal Reserve measures build further credibility to its 'whatever it takes' stance as it steps in to support the corporate sector and ease the liquidity crunch. Investment grade bond prices jumped on the news, however, lower-rated credit segments continued to slide as investors fear these measures may not provide enough support to less financially stable firms.
- Worldwide, several countries have passed fiscal stimulus measures in support of their economies. The US Congress delay in agreeing on a ~USD 2tn package is hurting investor sentiment as the coronavirus pandemic gathers pace inside the US. Further delays or an insufficient package could further damage the economy and delay its eventual recovery.
- **Technical watch**: The VIX retreated sharply on Monday, despite the fall in the S&P 500 index and continued positive divergence in the daily Relative Strength Index (RSI). Other sentiment indicators still reflect excessive pessimism; these are usually contrarian signals. This emerging set-up implies increasing probabilities for a short-term consolidation phase.

Equities fell on Monday; Commodities (oil, gold) rose

Selected market performance on 23 Mar and since 12 Feb*



Source: Bloomberg, Standard Chartered

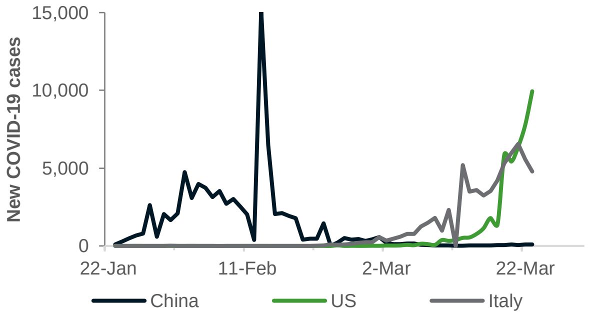
Table of technical support levels for selected assets

Index	Previous close	1st support	% from spot	2nd support	% from spot
S&P500	2,237.40	2,150.00	-3.9%	2,025.00	-9.5%
Stoxx 600	280.43	263.00	-6.2%	233.00	-16.9%
MSCI Asia ex.Jp	500.82	474.00	-5.4%	435.00	-13.1%
UST-10Yr	0.76	0.63	-13bps	0.50	-26bps
Gold	1,553.06	1,445.00	-7.0%	1,400.00	-9.9%

Source: Bloomberg, Standard Chartered

Trump mulls reopening the economy, despite rising Covid cases in the US

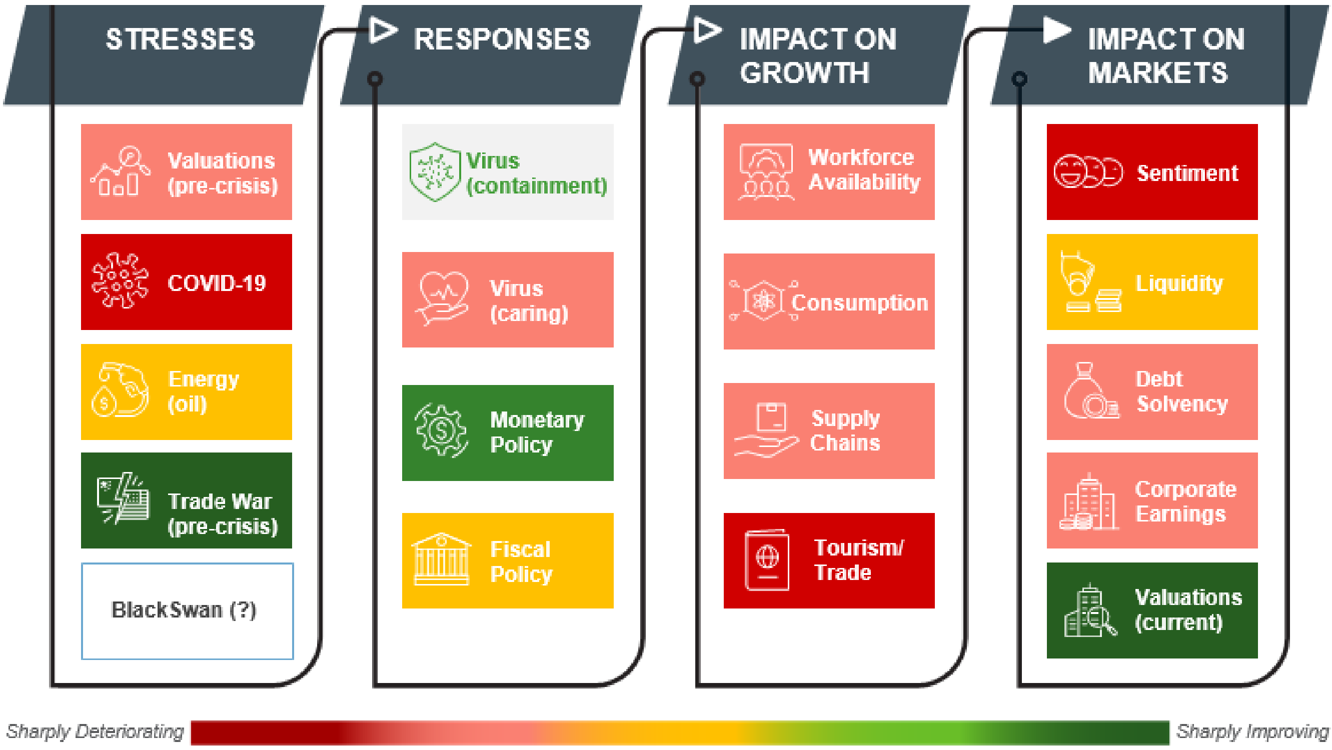
US Covid-19 cases versus China and Italy



Source: Bloomberg, Standard Chartered

What are markets trying to price this time?

- 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.
- On the fiscal policy side, 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.
- 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.



Source: Bloomberg, Standard Chartered

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