# Market Watch

## COVID-19 worries rattle markets

### Summary


- **Global equities fell sharply overnight on worries of a wider-than-expected economic impact of COVID-19 and a likely unwinding of stretched positioning.**
- **The pace of factory output re-openings in China and rate of COVID-19 spread outside China are likely key to assessing market direction in next 1-2 months.**


### Background

- Global equities sold off sharply yesterday following renewed COVID-19 coronavirus spread worries. Reports showed a surge in new cases outside China, especially South Korea and Italy, albeit from relatively low levels. However, the rate of new COVID-19 infections in China continued to decelerate.
- The market is likely focused on two specific concerns. First, whether China's economy is able to restart global supply chain production within the next month or so. Second, whether the spread outside China points to the risk of significant economic and trade shutdowns elsewhere in Asia and Europe.
- The sell-off also comes against the context of stretched equity market positioning. Fund manager surveys recently showed relatively low cash levels (typically a negative equity market indicator). Other reports attributed equity market weakness to position unwinding particularly by systematic traders.

### Market Reaction

- Global equities fell -3.0% yesterday. Asian equities were down -2.6% (led by -4.7% in Korea's KOSPI), Euro area's STOXX 600 was down -3.7% and the S&P 500 fell -3.4%.
- Overnight safe-haven gains were modest (gold +1.0%; 10-year US Treasury yield -10bps; JPY +0.8%) though, for gold, this masks more significant year-to-date gains (see chart).

### What does this mean for investors?

Equity market weakness could extend in the short term as the market reassesses the earlier consensus assumption of a V-shaped recovery in Chinese economic output.

We believe two factors will guide how far equity weakness extends. First is how quickly Chinese economic output rebounds. Second is the impact of any economic shutdowns imposed outside China.

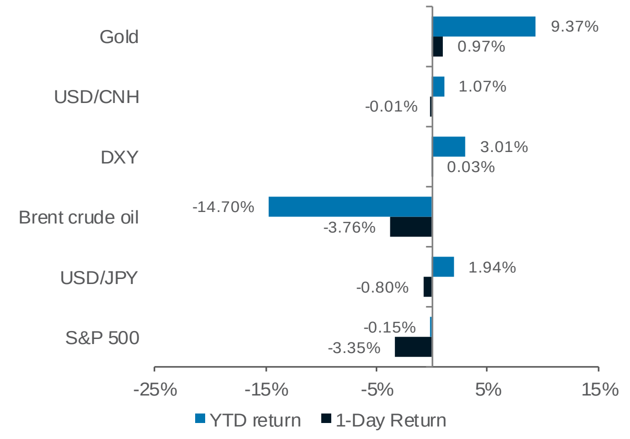
The magnitude of policy stimulus, pace of positioning unwinding and the evolution of the US Democrat Presidential nomination are also likely to influence the depth and length of the slowdown.

### What are key technical support levels to watch?

- **S&P500:** initial support is at 3215 (-0.3%), a break of which opens a possible move to the 200DMA at 3044 (-6.0%).
- **MSCI Asia ex-Japan:** The 200DMA is much closer at 647 (-1.8%) and the next major support is 15.7% away at 569.

**Equities fell as worries of COVID-19 impact rose**

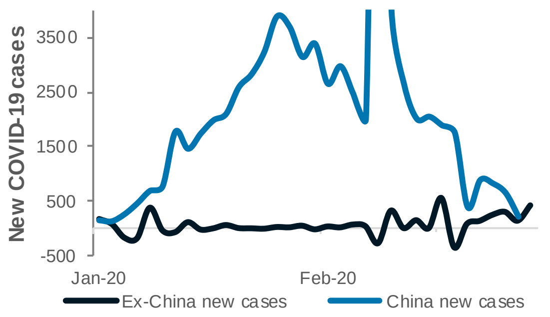
Selected market performance, 24-Feb-2020, local currency




Source: Bloomberg, Standard Chartered

**China infection rate decelerating, but cases outside China are rising, albeit from relatively low levels**

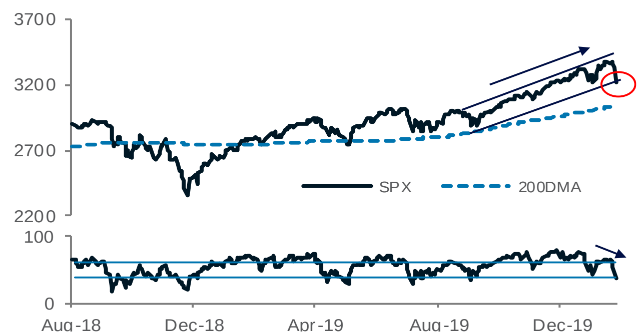
New COVID-19 infection rates, China and Rest-of-World




Source: Bloomberg, Standard Chartered

**US equities testing support at 3215, a break of which may cause the index to test its 200-Day Moving Average**

S&P500 (top panel) and 14-day RSI (bottom panel)




Source: Bloomberg, Standard Chartered

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