Standard Chartered

Market Watch

Halting the feedback loop?

Summary

- **The S&P500 index fell 3.4% after rising 20% in four days. US President Trump signed the USD 2 trillion stimulus package into law on Friday. How stressed companies get access to funding will be critical.**
- **Initial estimates of COVID-19's economic impact are coming out of France. Europe starting to talk about sharing the financial costs of fighting the pandemic.**
- **What to watch: US and European COVID-19 infection rates, any progress on EU Eurobond issuance, China activity data and money market liquidity.**

Background

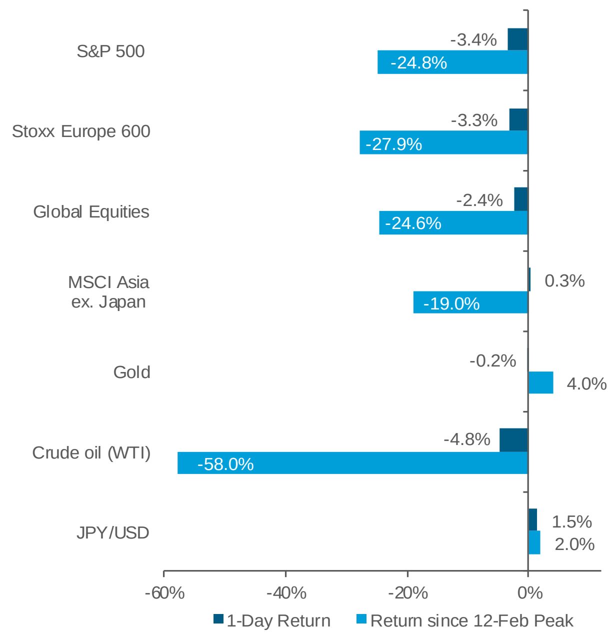
- The S&P500 index fell 3.4%. The 10-year US Treasury yield declined 6bps to 0.74%. Gold fell 0.2% while oil is just above recent lows around USD 20/bbl. The USD index fell 1.2%.
- The passage of the US's USD 2 trillion fiscal stimulus and financial support package is a major achievement. The key now is the extent to which this package will help avoid the negative feedback loop of the sharp slowdown of the economy onto corporate distress and job losses. The record number of job losses seen last week shows the challenges being faced. Therefore, companies are keen to understand exactly how they can access the USD 454bn in funding/loan guarantees as quickly as possible.
- We are starting to get some early indications of the magnitude by which the lockdowns might hurt different economies. The French statistics agency suggests that current containment policies will hit daily GDP by around 35%.
- In Europe, the focus is shifting to whether the Union should issue Eurobonds to jointly fund some of the fiscal expenses being incurred due to the coronavirus. This is a very sensitive topic politically. Any progress would show how seriously the authorities are taking the short-term challenges.

What does this mean for investors?

- Volatility is likely to remain elevated in the coming days and weeks and it is too early to say that the markets have hit the low for the cycle. That said, we believe we will look back on this period and say that it was a good time to be accumulating equities and corporate bonds. The ability to ride out short term fluctuations is key.
- **Technical watch:** A bullish crossover by the Moving Average Convergence Divergence indicator for the S&P500 index suggests the downward pressure has faded near-term and Friday's drop has not altered last week's recovery trend. However, the index needs to gain upside momentum, initially toward 2795, for medium-term downside risks to begin fading.

Equities fell back after very strong week

Selected market performance on 27 Mar and since 12 Feb



Source: Bloomberg, Standard Chartered

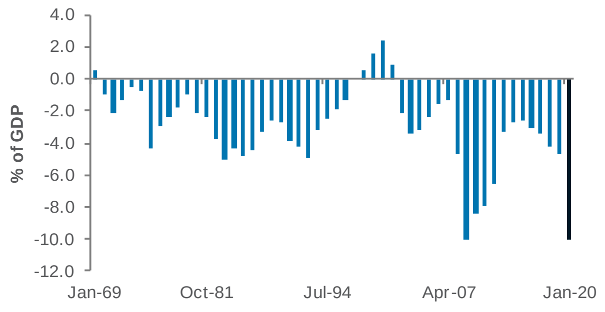
Table of technical support levels for selected assets

Index	Previous close	1st support	% from spot	2nd support	% from spot
S&P 500	2,541.47	2,192.00	-13.8%	2,025.00	-20.3%
Stoxx 600	310.90	269.00	-13.5%	233.00	-25.1%
MSCI Asia ex.Jp	557.28	501.00	-10.1%	435.00	-21.9%
UST-10Yr	0.67	0.50	-0.17	0.32	-0.36
Gold	1,617.50	1,555.00	-3.9%	1,451.00	-10.3%

Source: Bloomberg, Standard Chartered

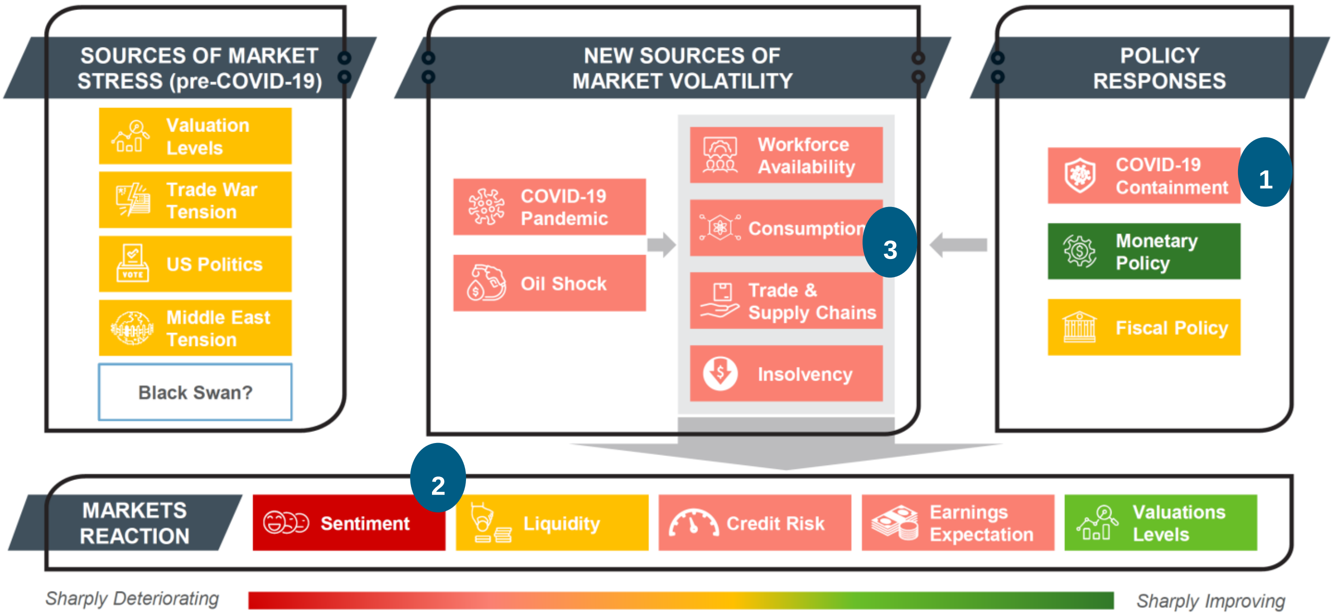
US passes stimulus package; key will be to ensure companies in need get access to funding

US budget deficit (% of GDP) – 2020 is an estimate



Source: Bloomberg, Standard Chartered

Things we are watching and our assessment



Source: Standard Chartered

Updates

1) **Coronavirus containment:** The number of cases globally continues to soar, standing at over 700k reported cases as of yesterday. The percentage increases in the number of deaths appears to have slowed over the past week in many countries, including in Italy, Spain and France. US cases continue to rise, reporting 9.5k in the latest day alone. US President Trump has indicated that he will extend the coronavirus restrictions from April 12th until the end of the month. Italy actually reported the number of deaths has fallen for 2 days in a row, but are still likely to extend the lockdown which is currently due to expire on Friday. In China, the second wave of infections, almost entirely from imported cases, is falling (down to 45 on Saturday).
2) **Sentiment:** One equity research analyst estimates that oil-producing countries may be forced to sell over USD 200bn worth of stocks in order to cover the budget shortfall caused by the decline in oil prices. On the positive side, the sharp decline in the USD last week indicates that market concerns over a severe USD shortage have been alleviated, at least for now. This should provide a significant amount of relief for Emerging Market assets in particular, although EM currencies have yet to benefit significantly.
3) **Economic impact:** We are starting to get some estimates of the potential impact of the containment policies being implemented. The French statistics office estimates that the current lockdown in France hits the economy by around 35% of daily GDP. Therefore, the impact on the economy will depend on 1) how long the current lockdown extends, 2) how quickly the authorities are able to loosen up on its containment measures once the situation gets under control and 3) what collateral damage is done – in terms of companies going out of business and jobs being lost.

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