Market Watch

Oil slump adds to COVID-19 stress

Summary

- **Global and US equity indices suffered their biggest drop since 2008 amid a plunge in oil prices and as Italy imposed nationwide restrictions to stem COVID-19's spread.**
- **Global and US equities are down 18-19% from recent peaks; the US 30-year government bond yield fell below 1% for the first time ever; JPY, EUR, Gold extended gains, establishing the benefits of a diversified allocation.**
- **President Trump plans to meet Congress on Tuesday to discuss economic relief measures, including a payroll tax cut. Markets also expect the ECB to ease policy this week, followed by further Fed rate cuts next week. Chances of a coordinated global stimulus are rising. Short-term technicals are also turning supportive for equities.**

Background

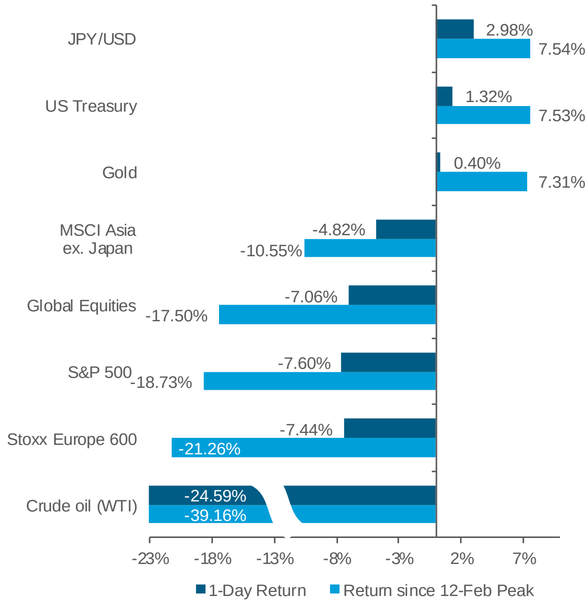
- Monday's decline in oil prices and other risk assets was triggered by the failure of OPEC and Russia to reach an agreement to curtail oil production to support prices. Global oil demand has slumped due to slowing economic activity as COVID-19 continues to spread across Europe and the US.
- Oil's decline increases stress on the energy sector (the sector was the worst performer in US and Europe on Monday), US HY bonds and Emerging Markets reliant on energy exports.

What does this mean for investors?

- Oil's plunge has added to COVID-19 stresses, raising global recession risks. The evolving scenario increases the need to remain diversified across high quality equities, government and high-grade corporate bonds, gold and alternative assets.
- The Fed's pro-active action to cut rates and ease liquidity and President Trump's proposed fiscal measures, which followed last week's G7 calls to mitigate the impact of COVID-19, suggest heightened efforts towards coordinated global policy action. We also expect more policy stimulus from China in the coming weeks. These measures, once implemented, could help support businesses facing short-term cash flow problems and underpin consumer and investor sentiment.
- Italy's imposition of nationwide travel restriction is a first for Europe and could be repeated in other markets. This raises the prospects for a German-backed Euro area-wide fiscal stimulus. UK is likely to unveil a fiscal boost in its budget on 11 March.
- **Technical watch:** The S&P 500 index is approaching strong support on the 200-week moving average (2640; 3.9% from Monday's close). A pause in the slide/rebound can't be ruled out – the last time the index was below this average was in 2011. MSCI Asia ex-Japan index has fairly strong support at the October 2018 low of 571 (7.3% below Monday's close).

The drop in risk assets have been partly offset by gains in traditional safe-havens

Selected market performance*; on 09 March and since MSCI AC World index peaked on 12 February 2020



Source: Bloomberg, Standard Chartered

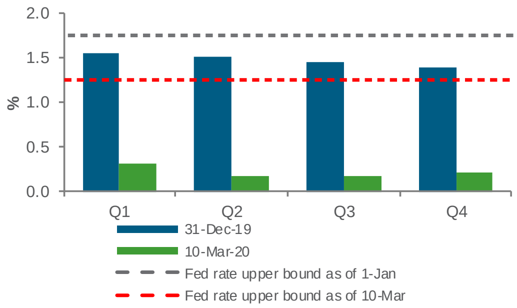
Table of technical support levels for selected assets

Index	Spot	1st support	% from spot	2nd support	% from spot
S&P500	2,746.56	2,640.00	-3.9%	2,347.00	-14.5%
Stoxx 600	339.50	327.00	-3.7%	303.00	-10.8%
MSCI Asia ex.Jp	615.68	571.00	-7.3%	496.00	-19.4%
UST-10Yr	0.54	0.32	-41.2%	0.13	-76.0%
Gold	1,669.46	1,605.00	-3.9%	1,547.00	-7.3%

Source: Bloomberg, Standard Chartered

Markets have dramatically increased expectations for Fed rate cuts in the coming months

Money market expectations for Fed rates through 2020; as of 31 December 2019 and on 10 March 2020



Source: Bloomberg, Standard Chartered

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