Market Watch

Opportunity being created

Summary

- US stocks extended their recent losses and are now down 7% over the past 3 trading sessions.
- US tech stocks have led the index lower, while Tesla's unexpected failure to gain admittance to the S&P 500 index led to a 21% decline for the stock overnight. Despite the S&P 500 index closing near intra-day lows, implied volatility rose only marginally
- **Our net assessment:** We view this as a continuation of the correction we had been anticipating and something to be taken advantage of. We would look to guidance from technicals and positioning for signs as to when to buy the dip.

Background

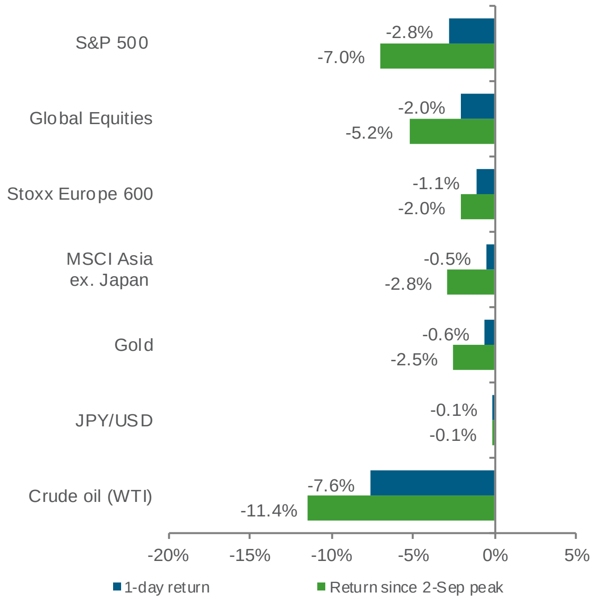
- The US S&P 500 index closed down 2.8%, while the Nasdaq 100 index closed 4.1% lower. The USD strengthened slightly and oil prices fell sharply.
- Sentiment has clearly taken a hit in recent days, but we see this more as a natural correction after a very strong run-up from the March 23rd low. Economic fundamentals appear to be in a holding pattern, while hopes for a USD 1 trillion fiscal stimulus have ebbed. The US Senate is hoping to vote on a USD 300bn stimulus package on Thursday, but Democrats want a much larger stimulus. Finally, hopes that multiple vaccines will be approved soon were dented overnight by talk that Astrazeneca's Stage 3 trial was halted due to safety concerns.

What does this mean for investors?

- We had been waiting for a pullback and, as often happens, it took longer than expected to arrive. This demonstrates the challenges of 'trading' such pullbacks by selling ahead of time and then looking to buy back into the market at lower levels.
- However, for those with cash to deploy, we believe the current sell-off offers an opportunity to gradually add exposure. Measures of stock market volatility have risen back to levels similar to the time-lapse from the equity market trough of the Global Financial Crisis and may be offering an opportunity for investors to sell volatility to generate income.
- Of course, we cannot rule out more short-term weakness, but we believe both Democrats and Republicans will ultimately work together to ensure they will not be blamed for any severe economic or equity market weakness.
- The S&P 500 index's drop below immediate support at the February high of 3394 confirms that the upward pressure has faded in the short term (we highlighted the risk of a short-term pause in the rally in our Weekly Market View published on Friday as the index was looking overbought). The next support is the June high of 3233 and a stronger support on the 200-day moving average (now at 3094; 7% below Monday's close). While the index is likely to maintain a weak bias in the near term, 3094 should provide fairly strong technical support.

Stocks and oil prices fall sharply

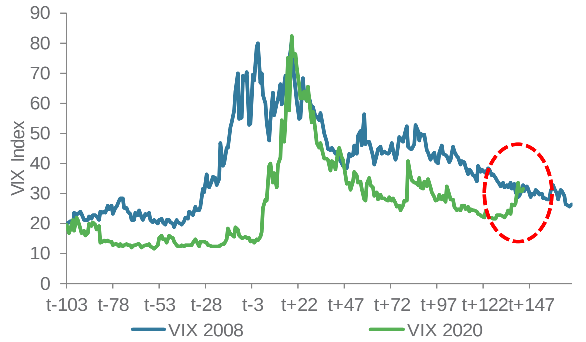
Performance of different asset classes



Source: Bloomberg, Standard Chartered

US stock market volatility back to where it belongs?

US S&P500 implied volatility (VIX) index, now versus the Global Financial Crisis; t=0 marks the peak in volatility



Source: Eikon, Standard Chartered

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