Market Watch

US close to sealing USD 2tn stimulus

Summary

- **The S&P500 index surged 9.4% and Dow Jones index soared 11%, its best day since 1933, as the US Congress appeared close to finalising a USD 2tn spending plan to mitigate the impact of COVID-19.**
- **While infection cases soared in the US and India imposed a nationwide lockdown, Wuhan, the origin of the pandemic in China, decided to lift its lockdown on 8 April.**
- **What to watch: US and European COVID-19 infection rates and fiscal packages, China activity data, money market liquidity, US initial jobless claims.**

Background

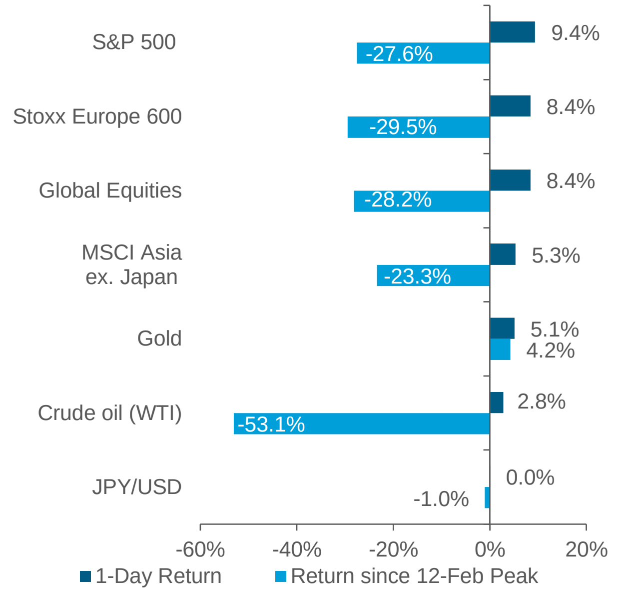
- The S&P500 index rose 9.4%. The 10-year US Treasury yield rose to 0.85%. Gold rose 5.1%. The USD was little changed.
- Shares of airline, tourism (sectors most affected by COVID-19) jumped as the US fiscal plan included a USD 500bn provision to rescue them. Democrats appeared less opposed after the administration promised more oversight over the use of the funds. The package also includes an average USD 3,000 in cash payments to households, expanded jobless benefits and loans for small businesses to tide over the coming weeks.
- COVID-19 new cases are rising in the US, but appear closer to a peak in Europe. Over 400,000 cases have been confirmed globally, including 53,000 in the US; New York state Governor said the rate of infection is doubling every three days.

What does this mean for investors?

- The bipartisan agreement on the fiscal package, combined with the Fed's massive liquidity measures, could be a game changer in terms of mitigating the medium-term economic impact. The provision to bailout airlines and other industries should support their shares, while Fed loans to support companies and small businesses should help limit bankruptcies and stall ongoing cash-flow problems from morphing into a solvency crisis.
- The scale and pace of global policy measures notwithstanding, sustained improvement in investor sentiment will depend on how soon the authorities are able to stem the spread of the virus. Complete lockdown of major US cities may be needed in the coming days, which points to continued market volatility.
- **Technical watch**: In recent days, various momentum, sentiment and breadth indicators have shown signs of fatigue. Any break above immediate resistance at Thursday's high of 2467 would confirm that an interim floor had been formed. Subsequent resistance is on the 30-day moving average (2793; 14% higher). On the downside, this week's low of 2192 is an important support followed by 2150 and 2025.

Equities surged on Tuesday along with gold

Selected market performance on 24 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	2,447.33	2,150.00	-12.1%	2,025.00	-17.3%
Stoxx 600	304.00	263.00	-13.5%	233.00	-23.4%
MSCI Asia ex.Jp	527.56	474.00	-10.2%	435.00	-17.5%
UST-10Yr	0.86	0.63	-0.22	0.50	-0.36
Gold	1,610.02	1,451.00	-9.9%	1,400.00	-13.0%

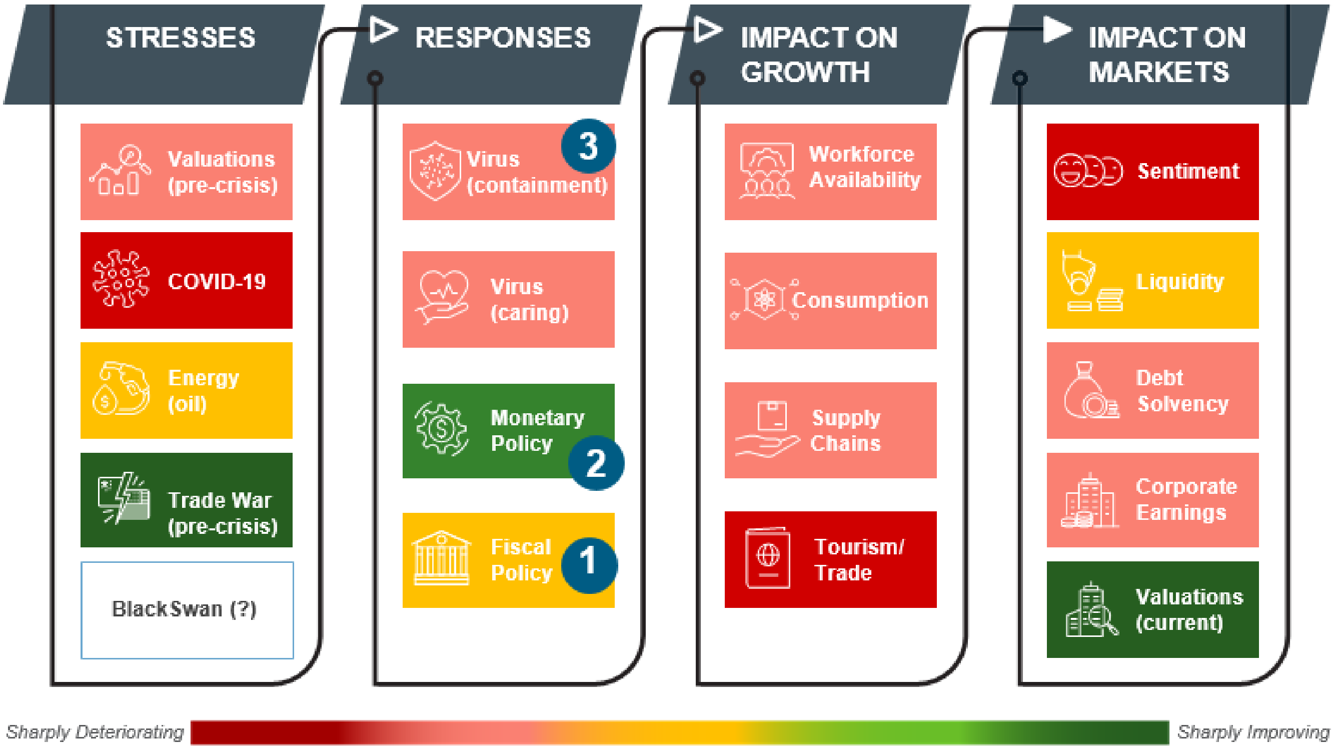
Source: Bloomberg, Standard Chartered

Dow Jones index soared 11.4%, its best day since 1933

Largest 1-day gains in the Dow Jones index since 1900

Source: Bloomberg, Standard Chartered

Things we are watching and our assessment



Source: Standard Chartered

What are markets trying to price?

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. Tuesday's surge in stocks suggests investors are increasingly pricing in the medium-term positive impact on the economy from the unprecedent fiscal and monetary stimulus measures undertaken in the US, Europe and other major economies in the past few weeks

1) **On fiscal policy**, 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. A passage of the US fiscal stimulus would lead us to upgrade our view on the strength of fiscal stimulus.
2) **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.
3) **COVID-19 update**: We are seeing increasing signs that the major Euro area countries are showing success in controlling the exponential curve, which is helping to point to an improving global profile. The US curve also flattened, but we are unconvinced that this is the start of a trend. The UK, Japan and Australia curves are far from reassuring at this stage. Not yet ready to downgrade the risks to the global outbreak until we see the US show sustained progress.

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