Market Watch

USD 2tn stimulus close to approval

Summary

- **The S&P500 index was up 1.2% and the Dow Jones rose 2.4% overnight, the first back-to-back gain in over a month, as the US Congress appeared set to approve a historic USD 2tn emergency stimulus.**
- **Credit spreads continue to tighten after the Fed's unlimited QE earlier this week**
- **What to watch: US and European COVID-19 infection rates, fiscal packages, China activity data, money market liquidity, US initial jobless claims.**

Background

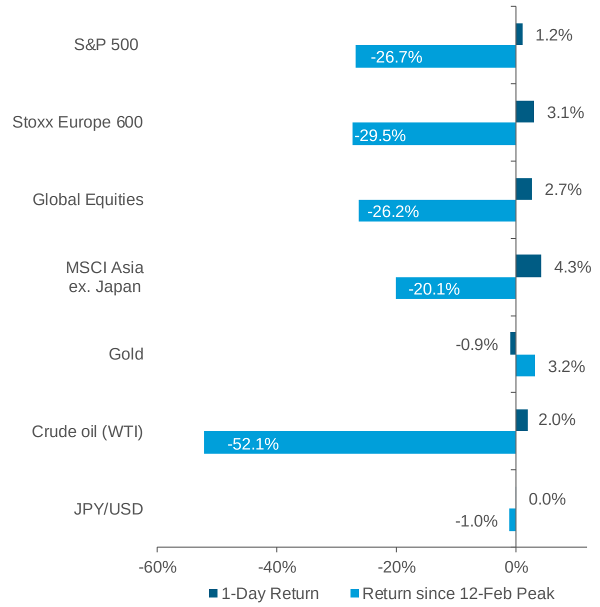
- The S&P500 index rose 1.2%. The 10-year US Treasury yield rose to 0.87%. Gold and USD were down around 1%.
- The White house and Senate reached a deal on the stimulus package, though a final vote is still pending given objections raised by 4 Senators. The USD 2tn package will likely include direct payments to household, expanded jobless benefits and loans for small businesses. It also includes USD 500bn in funding to support larger companies, including airlines and automakers – both equity sectors extended gains overnight.
- Credit markets extended their recovery after the Fed announced unlimited QE earlier this week, as indicated by default insurance markets.

What does this mean for investors?

- The combined stimulus from the USD 2tn Covid-19 stimulus package and Federal Reserve unlimited QE (purchase of assets) will be the largest in US history. The White House has estimated the entire fiscal and monetary package at USD 6tn, over a quarter of US GDP, dwarfing the 2008 package.
- In our assessment, the support measures should help to mitigate cash flow concerns from morphing into a solvency crisis in the near term. A sustained revival in investor sentiment, however, will depend on how soon authorities are able to contain the virus spread. In our response framework (see next page), a successful passage of US fiscal measures would mean two out of four responses would turn green. However, until Covid-19 containment measures can be eased, continued market volatility is still possible.
- **Technical watch**: The S&P 500 index's rise above immediate resistance indicates downward pressure is abating for now. In coming days, follow-through price action, volume and momentum (higher-tops-higher-lows on rising volume) will be key for a meaningful recovery. Subsequent resistance on the 30-day moving average (now at 2780; about 12% higher). On the downside, Monday's low of 2192 is now an important floor.

Equities extended rally while USD fell

Selected market performance on 25 Mar and since 12 Feb



Source: Bloomberg, Standard Chartered

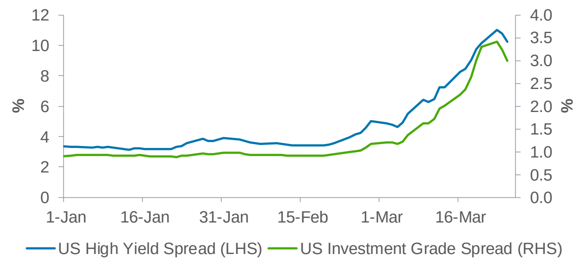
Table of technical support levels for selected assets

Index	Previous close	1st support	% from spot	2nd support	% from spot
S&P 500	2,475.56	2,192.00	-13.2%	2,025.00	-18.2%
Stoxx 600	313.38	263.00	-16.1%	233.00	-25.6%
MSCI Asia ex.Jp	550.16	474.00	-13.8%	435.00	-20.9%
UST-10Yr	0.87	0.63	-0.23	0.50	-0.37
Gold	1,613.29	1,555.00	-3.6%	1,451.00	-10.1%

Source: Bloomberg, Standard Chartered

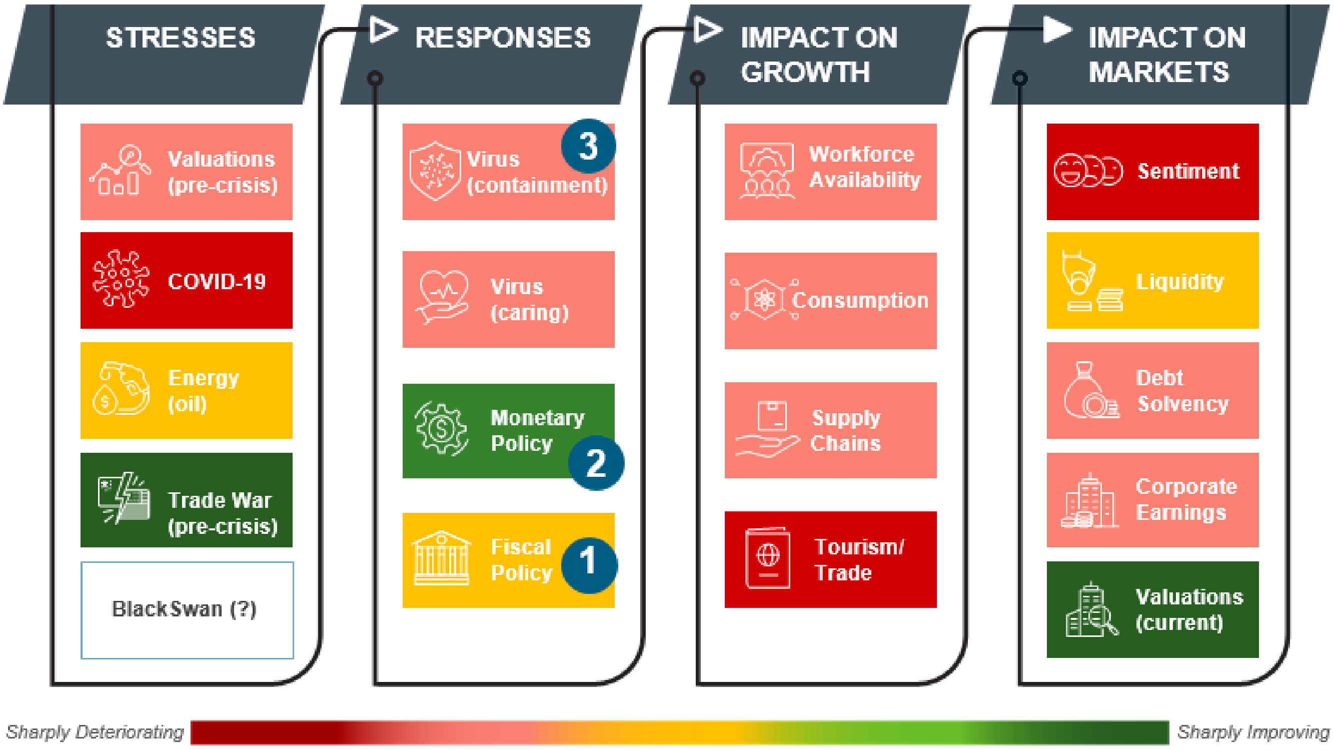
Credit spreads have started to tighten after their prior steep rise

US Investment grade and High yield bond credit spreads



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, which extended on Wednesday, 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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