

Weekly Market View



As the virus pandemic peaks, the focus is likely to turn to when, and how quickly, economies can normalise. This is likely to be the main driver of risk assets in coming weeks

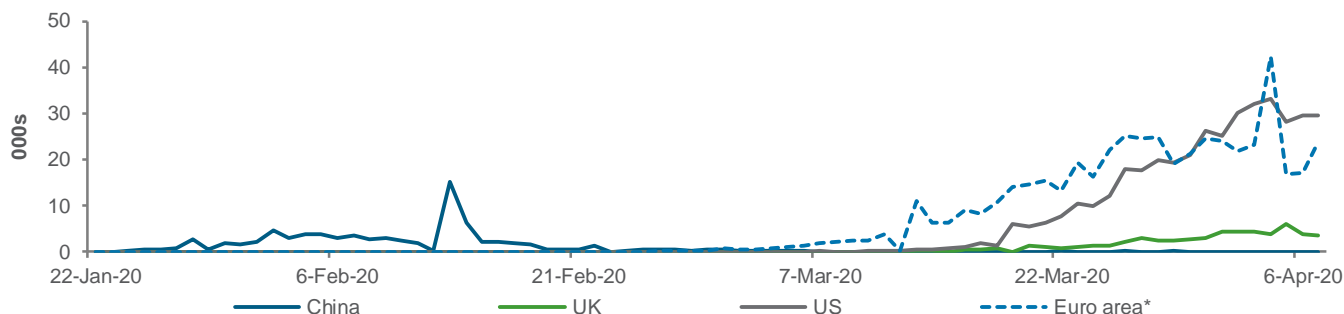
Equities: Earnings estimates have been significantly downgraded. Upcoming Q1 earnings season in focus for full-year earnings guidance

Bonds: Markets likely have priced in significant deterioration in credit quality, creating value in EM and Asia USD bonds

FX: EUR is likely to benefit as USD liquidity crunch eases

Chart of the week: COVID-19 outbreak approaching a peak?

COVID-19 daily new cases in major economies: most countries appear close to, or past, their peaks



Source: Johns Hopkins University, Standard Chartered
Euro area* proxied by France, Germany, Italy, Spain

Editorial

Looking beyond the lockdowns

The COVID-19 outbreak is showing tentative signs of peaking in major economies, notably in Europe. What this means is that the market's focus is likely to shift to **how soon and how quickly economies can restart** and assess that against current expectations of a recovery in major economies in 3Q. This week, Wuhan, the epicentre of the outbreak in China, relaxed its lockdown, while activity in other parts of China is gradually returning to normal. In Europe, Austria, Norway and some other countries plan to ease restrictions, raising expectations that Italy and Spain will follow in the coming weeks.

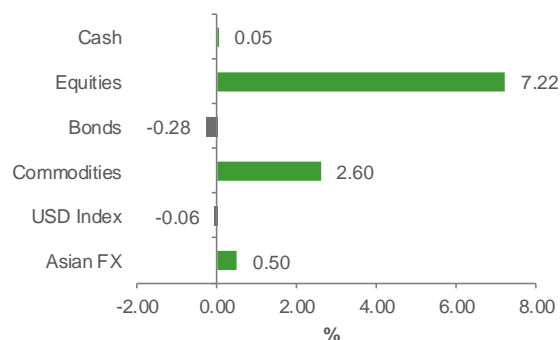
The unprecedented scale of policy action appears to be filtering through. In FX markets, the **USD liquidity crunch may be easing**. EU leaders proposed another **EUR 500bn** rescue package, while the **US Congress is proposing USD 250bn** more to support small businesses. Ensuring funds reach their target will be crucial in averting potential bankruptcies and helping companies fully reopen as soon as possible.

However, downgrades to growth estimates suggest investors are factoring in a **slower pace of recovery than envisaged a few weeks ago** as markets assess the extent of any longer-lasting damage to the economy. This is also likely to be reflected in further downgrades to corporate earnings estimates in the short-term – we will watch the ensuing Q1 earnings season for guidance on 2020 full year estimates. Oil prices have rebounded on hopes OPEC and Russia will agree to cut output at this week's meeting, although Russia's insistence that US producers also cut output risks an inconclusive outcome.

The rebound in risk assets and the **scaling back of volatility across asset classes** suggest policy actions may have helped avert a 2008-style credit crunch for now. Technical charts suggest **equities may have strong support at the March lows**, although a sustained rebound will depend on how soon economies get back online. China's early recovery supports our preference for Asia ex-Japan equities and Asian USD bonds as investors look to average back into markets. The easing of USD liquidity is also a positive for the EUR in the near term.

Global equities and commodities rebounded amid signs the COVID-19 pandemic may be peaking, notably in Europe, raising the prospect of economies re-opening over the coming weeks

Benchmark market performance w/w*

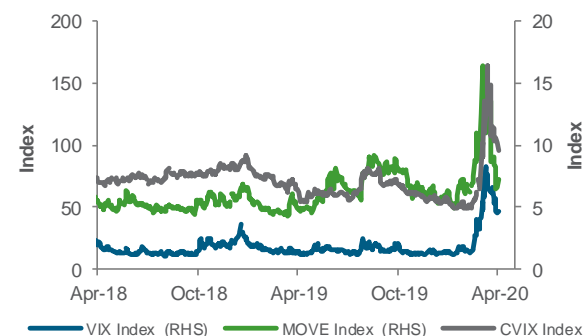


Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered

*Week of 02 April 2020 to 08 April 2020

The decline in volatility across asset classes suggests easing risk aversion as governments implement unprecedented stimulus measures to revive liquidity

Volatility in S&P500 index (VIX), US Treasuries (MOVE) and currencies (CVIX)



Source: Bloomberg; Standard Chartered

Factors to watch

Containment of COVID-19 outbreak

The number of new daily cases of COVID-19 has fallen over the past couple of weeks, notably in the most-affected European countries such as Italy and Spain. This suggests the tight lockdown measures imposed in March have helped to slow the spread. This is positive news for the US, which is likely 1-2 weeks behind Europe, though the outbreak appears to be spreading to new regions of the country after showing signs of reaching a peak in New York. The coming weeks are also crucial for some Asian countries, such as China, Japan and Singapore. Japan and Singapore imposed severe restrictions on economic activity this week after cases re-accelerated.

Economic impact of countries easing lockdowns

As the outbreak shows tentative signs of peaking, more countries are considering relaxing lockdowns. Wuhan, the epicentre of the outbreak in China, allowed residents to leave the city for the first time since 23 January. In Europe, Austria, Norway, Denmark and the Czech Republic plan to lift restrictions on travel, schools and some businesses. As restrictions are lifted, the market's focus is turning to how soon economic activity can return to normal and the scale of any longer-lasting economic impact. Here, China's example could be instructive: the latest PMI data has raised concerns that the recovery may be slower than what was initially expected. This likely led analysts to downgrade growth forecasts across major economies. A survey of 11 banks and independent research houses indicate a median 2020 GDP growth of 2.2% for China in 2020, -5% for the US and -6.1% for the Euro area.

More stimulus planned in the US, Europe

The rapid deterioration of economic activity coupled with an accelerating pace of unemployment is forcing policymakers to enhance stimulus measures. This is increasingly evident in the EU, where the scale of existing stimulus measures (at around 4% of GDP) pales in comparison with the US (at 10% of GDP).

This week, EU policymakers proposed a EUR 500bn spending package, which includes using the European Stability Mechanism, the region's bailout fund, to offer credit lines totalling up to 2% of the GDP of member countries, the creation of a credit guarantee fund for lending to companies and an employment re-insurance scheme. However, German and Dutch policymaker insistence on aid being conditional on members implementing economic restructuring measures has been opposed by other members, delaying an agreement.

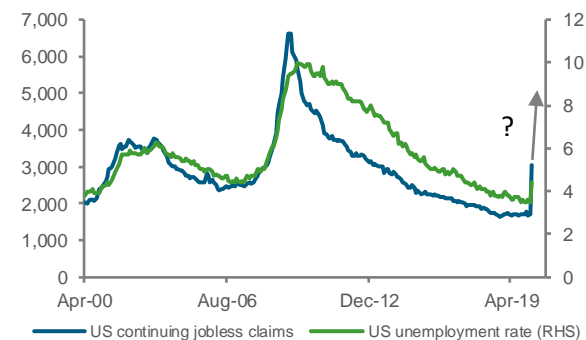
In the US, a proposed USD 250bn stimulus package is aimed at providing further aid to small businesses, which accounts for more than half of US jobs. Ensuring funds reach the targeted sectors will be key to its effectiveness in enabling businesses to keep workers on payrolls and bounce back as soon as lockdowns are lifted.

Market technicals turning supportive for risk assets

The drop in volatility across equities, bonds and currencies is the first sign that the acute liquidity crisis seen in March is likely easing. The unprecedented stimulus measures appear to have forestalled a 2008-like credit crunch for now. This is also reflected in key equity markets rebounding and then holding above their March lows, although there is a risk the rally could be losing steam (see comments on page 5). Equity markets are also seeing return of flows after sharp outflows in March.

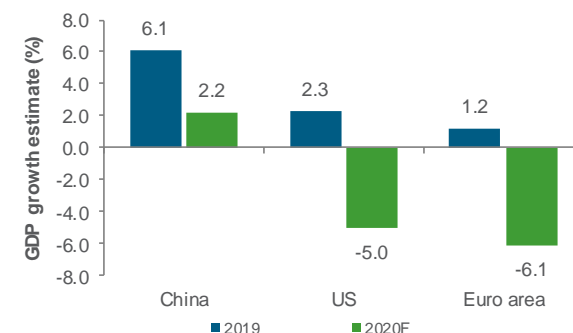
The US unemployment rate is likely to cross 2008's peak of 10% in coming weeks as jobless claims surge

US unemployment rate and continuing jobless claims



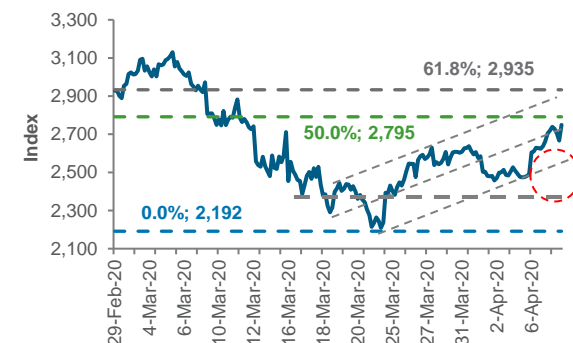
Market estimates for 2020 growth have been sharply downgraded in recent weeks

Median 2020 GDP y/y growth estimates (2020F), based on a survey of 11 banks and independent research houses



The S&P500 index appears to have formed a strong technical base at the March lows, but now faces resistance around 2,795

S&P500 index, with technical support and resistance



Top client questions

Bonds

Should credit quality deterioration be a worry?

We believe it is something to closely track in three areas. However, the market reaction may already be creating long-term opportunities.

Since the beginning of the year, there have been considerably more credit rating downgrades than upgrades globally amid concerns over the impact of the COVID-19 outbreak on corporate credit quality. In Developed Market (DM) corporate and Asia USD bond markets, the S&P upgrade/downgrade ratio has fallen below 1 (i.e. downgrades > upgrades) in Q1 2020 to one of the lowest levels in the last 10 years.

In addition, this has been accompanied by rising instances of “fallen angel risk”, i.e. bonds being downgraded from Investment Grade (IG) to High Yield (HY). This is a key focus area as it can trigger forced selling (from IG-only investment mandates, for example) in a less liquid HY market.

In the Emerging Market (EM) sovereign USD bond market, the combination of rating downgrades, capital outflows, falling oil prices and emerging pressures on EM currencies are factors that could worsen average credit quality.

We share investors' concern over credit deterioration, and further downgrades may yet be in the offing short-term. However, the risks may already be increasingly priced in. The Bloomberg Barclays Global Corp & Financial BBB index yield premium – the segment most at risk of ‘fallen angel’ risk – has climbed by nearly 100bps YTD, more than 2 standard deviation over a 10-year horizon.

EM USD government bond yield premiums are now almost two-thirds as wide as 2001 or 2008 recession peaks. Finally, significant monetary and fiscal policy support may help mitigate risk. Therefore, short-term volatility risks notwithstanding, we believe Asia USD bonds and EM USD government bonds may now be offering long-term value even after accounting for credit quality deterioration concerns, as may be parts of the DM corporate bond universe.

FX

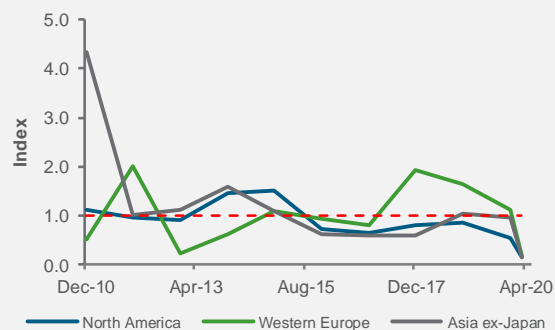
Can US Dollar bears prevail?

The USD trend is key for most global markets. The “dash for dollars” during the equity market decline and liquidity squeeze weakened most currencies and hit EM FX particularly hard. The Fed has subsequently provided unprecedented dollar liquidity, including internationally via swap and repo facilities for many central banks. This has meant DM currencies have halted their fall. However, they will likely need to rally sustainably to underpin risk sentiment and provide EM currencies a path to recovery.

We believe that conditions may now be turning more negative for the USD. When viewed through the lens of EUR/USD, it is clear that dollar liquidity (i.e. supply) has responded strongly to the Fed's actions. Based on 3-month swap markets, it is now cheaper to borrow USD than EUR. If this is sustained, the USD should start to weaken (and EUR/USD should start to strengthen) in response to narrowing relative real interest rates and a surge in the US budget deficit.

Rating downgrades in Q1 indicate drop in credit quality

S&P long-term rating upgrade/downgrade ratio (>1 means more upgrades than downgrades, and vice versa)



Source: Bloomberg; Standard Chartered

The EUR is likely to benefit as USD liquidity crunch eases

EUR/USD and EU-US real interest rate differentials



Source: Bloomberg; Standard Chartered

Based on 3-month FX swap markets, it is now cheaper to borrow USD than EUR

EUR/USD and USD demand proxy (*measured in 3-month EUR/USD basis swap, bps)



Source: Bloomberg; Standard Chartered

Top client questions (cont'd)

Barring another sharp decline in equity markets, we expect that EUR/USD will remain in a range between key 1.0750 and 1.1065 technical levels. A break of the latter, and then 1.1150, would suggest the USD peaking process is back on track with an initial EUR/USD target around 1.15. If support at 1.0750 fails, another squeeze is likely to challenge the previous low at 1.0635 and the 2016 low at 1.0340. We expect the bullish EUR/USD scenario to play out over the coming weeks.

Equities

Will the Fed expand QE to start buying stocks?

Former Fed Chair Janet Yellen proposed, in a recent interview, that the Fed's mandate should be expanded to allow the purchase of Exchange-Traded Funds (ETFs) as part of its Quantitative Easing (QE) programme. While Yellen indicated she did not think the Fed needed to exercise these powers immediately, she argued lawmakers should give it the leeway to do so in the future.

The proposal, while controversial, is not without precedent. The Bank of Japan (BoJ) has had the ability to purchase equity ETFs and Real Estate Investment Trusts (REITs) since 2013. From an initial target of JPY 1trn for ETFs and JPY 30bn for REITs, the programme has since grown to the March 2020 announcement of an "upper limit" of JPY 12trn for ETF purchases.

The impact of including the purchases of stocks, via ETFs or REITs, in Fed QE would be bullish for the US equity market in the short term, in our assessment. However, the long-term impact is less clear cut. The BoJ has lost money on its purchases as the equity market has weakened amid anaemic economic growth rates. The Fed would likely need to avoid the so-called "Japanification" of its own economy for a reasonable prospect that it could sell the acquired stock for a profit in the years ahead. If Yellen's proposal gains traction, we expect it to be supporting of our Preferred US equity view.

What is the outlook for US earnings? What are charts saying?

The start of the US Q2 earnings season, with banks kicking off reporting on 14 April, will be key in assessing how the market is digesting Yellen's comments, and the impact of COVID-19 shutdowns more broadly. Consensus estimates for 2020 full-year earnings have been downgraded to -8% from +10% at the start of the year.

On technicals, a negative divergence on the hourly charts (declining 14-hour Relative Strength Index and rising S&P 500 index) coupled with the index's inability to rise towards the upper edge of a rising channel near 2,795 (the 50% retracement of the February-March fall) is a sign that the rally is running out of steam. To be sure, the failure to extend gains could imply a range, and not necessarily an imminent decline. Any break below immediate support at 2,641 would imply a 2,447-2,795 range. A break below the April 1 low of 2,447, slightly below the lower edge of the March rising channel could open the way towards the March low of 2,192. On the upside, the next resistance is at 2,935 (the 61.8% retracement).

US and Asia ex-Japan equity market technicals have turned positive

Technical levels of key markets as of 08 April 2020

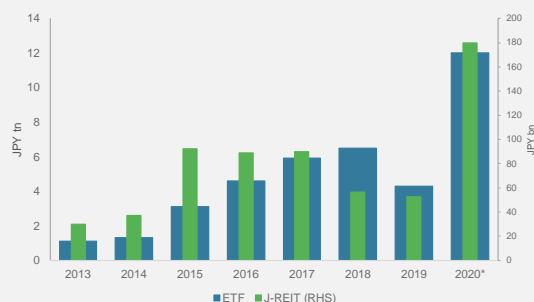
Index	Spot	1st support	1st resistance	Short-term trend
S&P500	2,750	2,450	2,820	↗
STOXX 50	2,851	2,540	2,907	↗
FTSE 100	5,678	4,900	5,900	↘
Nikkei 225	19,353	17,650	19,550	↘
Shanghai Comp	2,815	2,720	2,880	↘
Hang Seng	23,970	22,700	25,000	↗
MSCI Asia ex-Japan	578	542	616	↗
MSCI EM	878	820	898	↗
Brent (ICE)	33	22	40	↗
Gold	1,646	1,575	1,700	↗
UST 10Y Yield	0.78	0.30	1.27	↘

Source: Trading Central, Standard Chartered

Note: Arrows represent short-term trend opinions

Bank of Japan has the ability to purchase up to JPY 12tn of ETFs in 2020

Bank of Japan purchases of ETFs and REITs



Source: Bank of Japan; Standard Chartered. *2020 annual target

Q2 earnings estimates for S&P500 index members have seen the sharpest downgrades

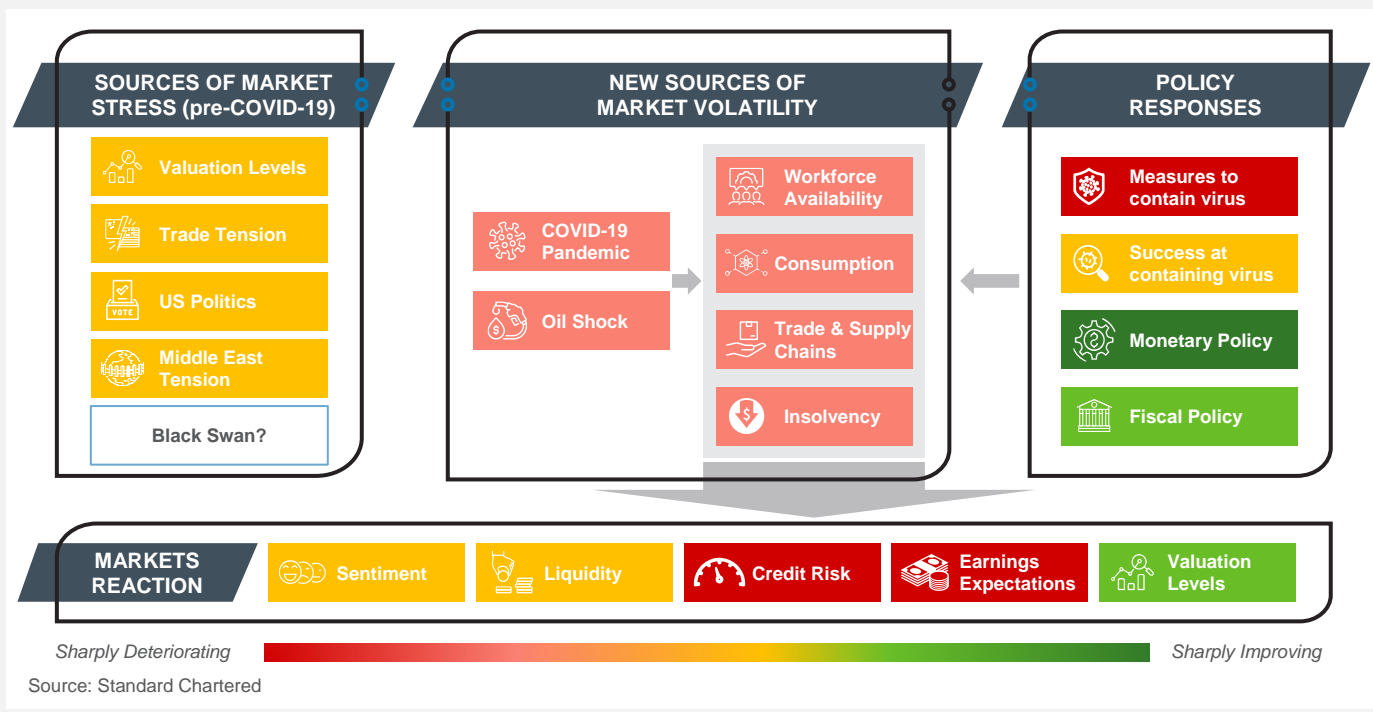
Consensus S&P500 index earnings estimates today vs. start of the year



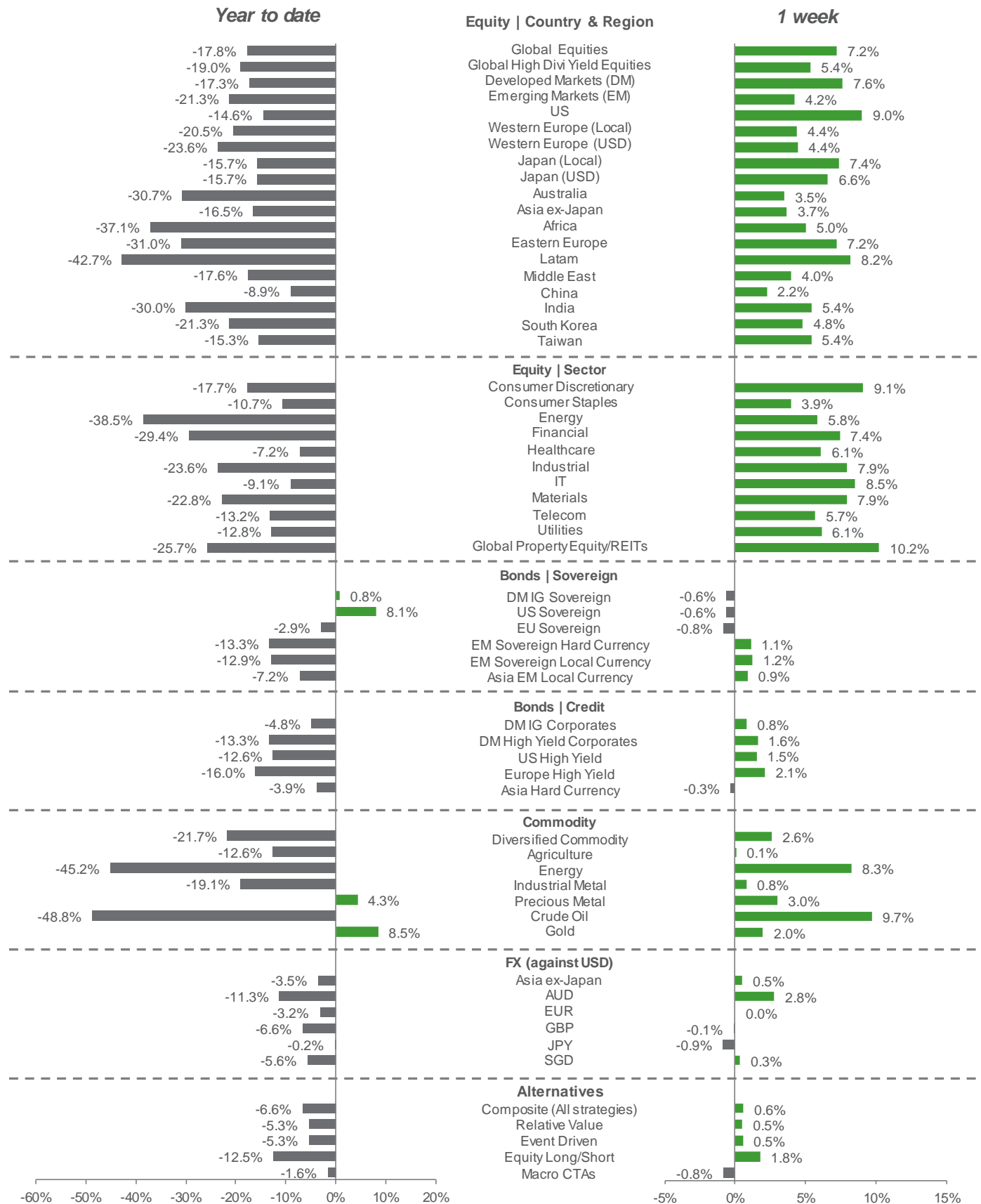
Source: Refinitiv; Standard Chartered

What we are watching

Valuations of several risk assets remain attractive. As the virus pandemic slows, notably in Europe, the focus is likely to turn to how soon the lockdown measures are lifted in the coming weeks. The latter will determine whether economic growth and corporate earnings downgrades are further downgraded. US and European policymakers are proposing further fiscal stimulus measures which, if implemented, should help prevent large-scale bankruptcies. There is a risk, however, of a second-wave of the pandemic forcing authorities to re-impose lockdowns, thus delaying economic and corporate earnings recovery.



Market performance summary*



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*Performance in USD terms unless otherwise stated, 2019 performance from 31 December 2019 to 08 April 2020, 1 week period: 02 April 2020 to 08 April 2020

Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	IN	CPI y/y	13-Apr-2020	Mar	5.9%	6.6%
TUE	CH	Exports y/y	14-Apr-2020	Mar	-13.5%	–
WED	US	Retail Sales Ex Auto and Gas	15-Apr-2020	Mar	–	-0.2%
	US	Industrial Production m/m	15-Apr-2020	Mar	-2.2%	0.6%
	CA	Bank of Canada Rate Decision	15-Apr-2020	15-Apr	0.25%	0.25%
	IN	Exports y/y	15-Apr-2020	Mar	–	2.9%
THUR	US	Building Permits	16-Apr-2020	Mar	1350k	1452k
	US	Housing Starts	16-Apr-2020	Mar	1350k	1599k
	US	Philadelphia Fed Business Outlook	16-Apr-2020	Apr	–	-12.7
FRI/SAT	CH	GDP y/y	17-Apr-2020	1Q	-5.1%	6.0%
	CH	Industrial Production y/y	17-Apr-2020	Mar	-6.4%	–
	CH	Retail Sales y/y	17-Apr-2020	Mar	-6.5%	–
	CH	Fixed Assets Ex Rural YTD y/y	17-Apr-2020	Mar	-14.5%	-24.5%
	US	Leading Index	17-Apr-2020	Mar	-7.0%	0.1%
	Event	This Week	Date	Period	Actual	Prior
MON	EC	Sentix Investor Confidence	6-Apr-2020	Apr	-42.9	-17.1
TUE	CH	Foreign Reserves	7-Apr-2020	Mar	\$3060.63b	\$3106.72b
	GE	Industrial Production WDA y/y	7-Apr-2020	Feb	-1.2%	-1.3%
WED	US	Consumer Credit	8-Apr-2020	Feb	\$22.331b	\$12.060b
	JN	BoP Current Account Adjusted	8-Apr-2020	Feb	¥2378.1b	¥1626.8b
	JN	Core Machine Orders y/y	8-Apr-2020	Feb	-2.4%	-0.3%
THUR	SK	BoK 7-Day Repo Rate	9-Apr-2020	9-Apr	0.75%	0.75%
	GE	Exports SA MoM	9-Apr-2020	Feb	–	0.1%
	UK	Industrial Production y/y	9-Apr-2020	Feb	–	-2.9%
	US	PPI Ex Food and Energy y/y	9-Apr-2020	Mar	–	1.4%
	US	U. of Mich. Sentiment	9-Apr-2020	Apr P	–	89.1
FRI/SAT	CH	Money Supply M2 y/y	10-Apr-2020	Mar	–	8.8%
	CH	PPI y/y	10-Apr-2020	Mar	–	-0.4%
	CH	CPI y/y	10-Apr-2020	Mar	–	5.2%
	US	CPI Ex Food and Energy y/y	10-Apr-2020	Mar	–	2.4%

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue

Previous data are for the preceding period unless otherwise indicated

Data are % change on previous period unless otherwise indicated

P - preliminary data, F - final data, sa - seasonally adjusted

y/y – year-on-year, m/m - month-on-month

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