

Weekly Market View



The equity plunge shows investors are struggling to price virus risks. Sentiment has turned extremely bearish. Signs of virus' peak, fiscal easing and rebound of China activity are key to a recovery

Equities: Defensives (utilities, consumer staples) outperformed, while energy and financials lagged

Bonds: Asian USD bonds relatively resilient, underscoring their defensive quality

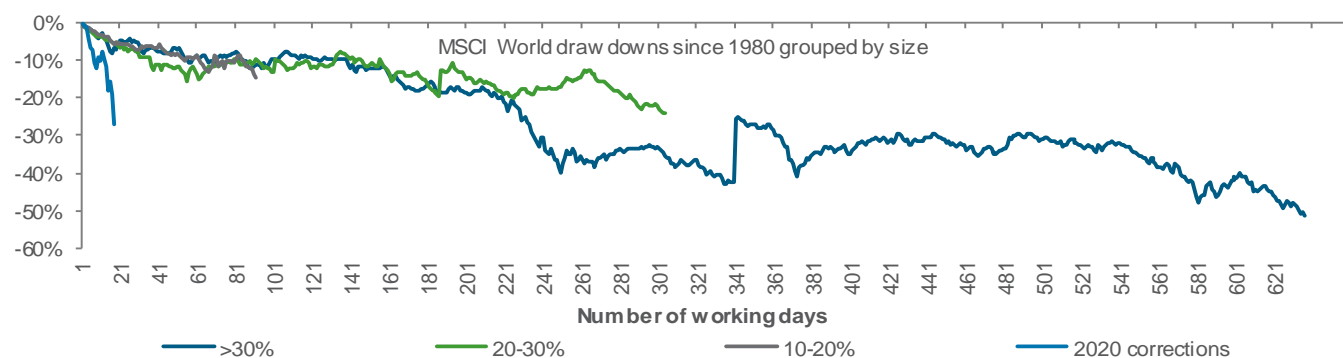
FX: US's falling interest rate advantage means USD not a clear safe-haven

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Chart of the week: Fastest drop into bear market in history

Comparing the MSCI World Index's latest drawdown with previous average bear-market declines since 1980



Source: Bloomberg, Standard Chartered

Editorial

Uncharted territory

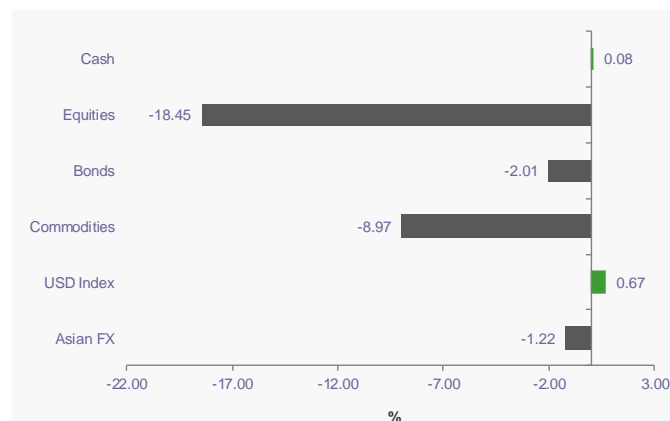
US and other stock markets have seen their fastest plunge into a bear market; Thursday's 9.5% drop in the US was the worst since the 'Black Monday' crash of 1987. What happens next?

Clearly, we are in uncharted territory, given the primary driver of the drop was COVID-19, a global medical emergency without any precedence in the modern era. Markets have no proven methodology to price such risks. This probably explains the panic selling across asset classes, even after central banks unveiled rate cuts and large-scale liquidity boosts. Monetary policy is clearly not enough to prevent a demand shock of this kind, especially with interest rates close to 0%. Thus, fiscal stimulus becomes imperative, along with monetary easing, as unveiled, for instance, in the UK. We see signs of such measures from Europe and the US (see page 3). With markets in capitulation, unwinding by systematic funds likely complete and diversity/sentiment at extremes, a recession is priced in.

What could drive a rebound? How soon COVID-19 peaks in Europe and the US; whether governments eschew China's and Italy's example of locking down economies; and how quickly activity in China normalises. We assess these on pages 3-7.

Global equities plunged into the fastest bear market in history as the spread of coronavirus (COVID-19) accelerated in the US and Europe, President Trump imposed travel restrictions from Europe, while oil prices plunged as OPEC and Russia abandoned an agreement to restrict output

Benchmark market performance w/w*



Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered
*Week of 05 March 2020 to 12 March 2020

Charge of the policy brigade

This week's policy easing measures in the UK, Euro area and US suggest increased urgency among policymakers to mitigate the economic impact of COVID-19. The UK's coordinated monetary and fiscal policy actions could become a template for other governments. The ECB followed the BoE and the Fed in further easing monetary policy, with an aim to shore up bank liquidity and mitigate short-term cash flows at companies. We now expect EU governments to follow with a sizeable fiscal stimulus as recession risk rises in the region's three largest economies. The Fed is likely not done yet – after it pledged USD 5tn in short-term funding, markets are expecting more than 75bps rate cut on 18 March, with rising chances of bond purchases by the US central bank. Meanwhile, US President Donald Trump has proposed a payroll tax cut, although Democrats wanted more targeted measures aimed at small businesses and part-time workers without benefits.

What could fiscal stimulus look like in the US, Europe?

Investors are clearly not convinced the monetary stimulus provided by central banks thus far will, on their own, be sufficient to mitigate the impact on growth from COVID-19. With markets pricing in a recession, we believe there is growing urgency among governments to step up fiscal spending to support demand. Monetary policy easing in the form of rate cuts are broad-based, not targeted, and typically help an eventual recovery, but are unlikely to limit the immediate downside.

Thus, the UK's GBP 30bn budget stimulus, US President Donald Trump's proposal of a payroll tax cut and German Chancellor Angela Merkel's vow to "do whatever is necessary" make us more optimistic than a week ago that governments are moving in the direction of further targeted budgetary spending measures to shore up demand.

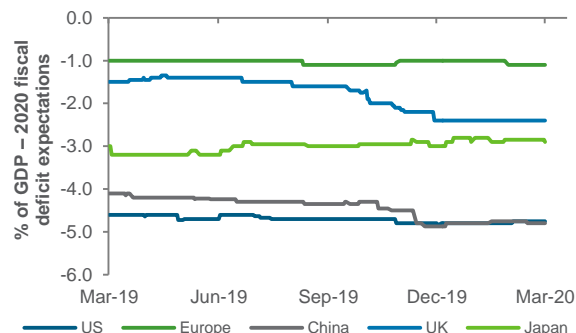
The UK has set a template for others to follow: coordinated action by the BoE and the government to support small businesses facing temporary cash flow problems, statutory sick pay for those required to isolate themselves because of COVID-19 and medical benefits for part-time and self-employed workers whose jobs are affected. The UK also unveiled a GBP 600bn five-year plan to invest in roads, railways, housing and other infrastructure, which will be funded by increased borrowing. Record-low bond yields make it easier for governments to fund such programmes. This suggests the decade-long era of government austerity that has weighed on Europe's growth may be coming to an end.

USD may become a lesser safe-haven

The US's declining bond yield and interest rate advantage suggests that the USD may no longer be a clear safe-haven as COVID-19's global impact continues to unfold. Coordinated global monetary and fiscal policies will effectively level the playing field for currency valuations, and we expect that this will lead to a weaker USD against the alternative safe-havens EUR, JPY, CHF and possibly CNY initially. We would also closely monitor developments in China as an indicator of how the virus will impact European and then North American growth. A pick-up in Chinese data would suggest Asian EM currencies, AUD and NZD could begin to recover recent sharp losses. In the very near-term, equity market wealth losses are spreading stress to other asset markets and generating a demand for USD as investors try to plug gaps in their portfolios. Volatility is likely to remain elevated. Near term, we expect strong support in EUR/USD between 1.0950 and 1.1050 and a possible re-test of the recent high near 1.1500. USD/JPY has strong resistance between 105.50 and 106.70 and may revisit the recent low near 101.

Europe is a laggard in fiscal easing, while the US is highly accommodative; Europe is likely to catch up soon as COVID-19 causes a recession in the region's three largest economies – Germany, France and Italy

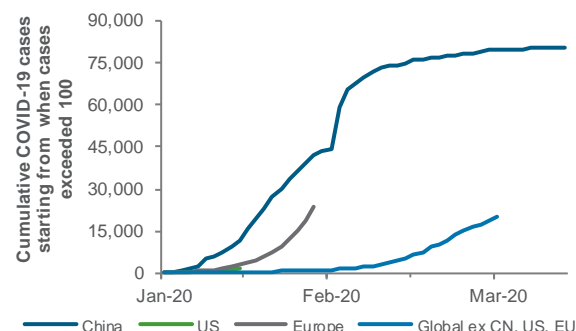
2020 fiscal deficit expectations across major economies



Source: Bloomberg; Standard Chartered

Acceleration in COVID-19 cases in Europe and the US has increased the urgency among policymakers to embark on fiscal and monetary stimulus

Cumulative COVID-19 cases starting from when cases exceeded 100 in key economies, as of 11 March



Source: The Center for Systems Science and Engineering (CSSE) at Johns Hopkins University; Standard Chartered

EUR/USD has rebounded as USD's safe-haven appeal fades with Fed rate cuts; the next resistance for the pair is around 1.1500

EUR/USD



Source: Bloomberg, Standard Chartered

What does this mean for investors?

Equities

How have various sectors fared in the recent drawdown? US, Europe and Japan equities are now in a bear market, ie, a peak-to-trough fall of 20%. The decline was sparked by the COVID-19 outbreak and the 30% plunge in oil prices after OPEC and Russia failed to reach an agreement. The oil shock meant the energy sector has emerged as the worst performer in the latest downturn. The financial sector is next as lower interest rates will hurt bank profit margins. As the market assesses the impact of various stimulus efforts against the extent and duration of growth disruptions, defensive sectors are likely to outperform near term. Consumer staples, healthcare, utilities and real estate are already outperforming the wider market this month, both in the US and Euro area. Healthcare also has tailwinds from the higher probability of Joe Biden winning the Democrat nomination for the presidential election.

As economic uncertainty rises, earnings growth estimates continue to be downgraded in the US for Q1 20 and 2020, at 1% and 6% (from 2% and 7% a week ago). The Euro area is also seeing downgrades, with Q1 20 and 2020 earnings expectations at -7% and 7% (from -3% and 7% a week ago). US equities are a preferred holding, given companies have a greater domestic focus as global trade slows.

Bonds

Are 10-year US government yields headed toward zero? 10-year US Treasury yields hit all-time lows of 0.31% this week before bouncing higher, as an oil price drop compounded the COVID-19-related growth concerns and led to a sharp decline in inflation expectations. While a fall to 0% yield cannot be ruled out if monetary and fiscal policy measures fail to boost confidence in a global growth recovery, our central scenario of a V- or U-shaped recovery would imply that 10-year yields could stay around current levels or edge above 1% in the coming few months even if the Fed cuts rates in the meeting next week.

What is the outlook for EM bonds given the decline in oil prices?

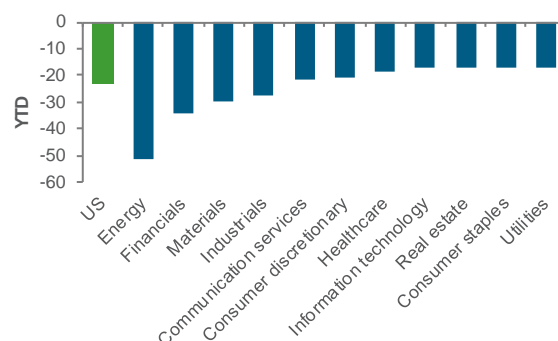
EM USD government bonds declined sharply as yield premiums increased amid a dip in oil prices (EM countries are net oil exporters) and Lebanon's debt restructuring. This meant that the bonds gave up their YTD gains. However, on the plus side, valuations have become the cheapest since 2009, providing investors a good compensation for the risk. Meanwhile, Asian USD bonds continued to be relatively resilient, recording only a modest increase in yield premiums, given Asia benefits from the lower oil prices and as economic activity gradually returns to normal in China (over 50% of the bonds are from Chinese issuers).

FX

Why has gold not performed well in the latest drawdown in risk assets? Gold fell sharply lower over the past few days as equity markets made deep new lows. In the near-term, gold may not display its traditional safe-haven characteristic as volatility has moved to extreme levels. While the core fundamentals for a positive gold stance are improving – namely lower global bond yields and short-term rates – investors may be selling gold to raise cash to replace equity market losses and margin calls. Technical charts suggest support for gold should be strong around between 1535 and 1565. But given the potential for very high volatility and lower liquidity to continue in the near term, a break of the lower bound could trigger further selling towards 1,495 near-term

Energy and financial sectors have been the worst performers among US equities YTD, while defensive sectors have outperformed

Relative performance of various MSCI US sectors YTD



Source: FactSet, Standard Chartered

Equity technicals have turned negative across the board

Technical levels of key markets as of 12 March 2020

Index	Spot	1st support	1st resistance	Short-term trend
S&P500	2,481	2,475	2,705	↓
STOXX 50	2,545	2,300	2,900	↓
FTSE 100	5,237	4,920	5,890	↓
Nikkei 225	18,560	17,580	20,150	↓
Shanghai Comp	2,923	2,840	3,030	→
Hang Seng	24,309	23,000	25,550	↓
MSCI Asia ex-Japan	617	568	616	↓
MSCI EM	947	840	943	↓
Brent (ICE)	33	31	41	↓
Gold	1,581	1,555	1,660	→
UST 10Y Yield	0.76	0.30	0.91	↓

Source: Trading Central, Standard Chartered

Note: Arrows represent short-term trend opinions

Gold has not benefitted from the recent risk-aversion, possibly as investors are taking profits to service equity market margin calls

Gold spot price



Source: Bloomberg, Standard Chartered

Top client questions

Q How does the current sell-off compare to 2008?

While the causes of the recent volatility are very different, recency bias makes this a natural question.

The US equity market's decline is already larger than the drawdown size for an average recession, but we are only 44% of the way into the peak-to-trough decline seen in the Global Financial Crisis (GFC), which was one of the most severe recessions in history.

Interestingly, while COVID-19 started in China, China and Asia have been less affected than Developed Markets, both in absolute terms and relative to the GFC performance. Perhaps this reflects 1) the cheaper valuations going into the outbreak and 2) the fact that the region, and China in particular, appears to be further ahead when it comes to controlling the virus.

Within the bond space, EM USD government bond spreads are at 60% of the level seen in the GFC, compared to 35-45% for the corporate bond sub-asset classes, with the collapse in oil prices undermining support for this asset class yet further.

The area that has priced in something most similar to the GFC is equity market volatility, with the VIX index at 93% of the peak seen in the GFC. This is not surprising, given the fact that as the chart on page 2 shows, this is fastest decline from the peak on record for the US market.

Q Is there anything we can learn from historical bear markets and apply it to the current environment?

Looking back at prior US bear markets, i.e., market declines of 20% or greater, can help to place the current one in context. The average bear market decline since 1990 was 24%, so we are already past this stage.

What is unusual about the current market decline is the pace of this sell-off – historically, bear markets last 12 months. This decline has taken less than a month.

With the market closing in on bear market territory in record time, some investors are focusing on the shape of any rebound. Historically, recoveries from bear markets can be as swift as three months, as was the case in 2018, or can take as long as four years, as was in the case of the Gulf War, Dot Com and Global Financial Crisis bear markets.

In the absence of a crystal ball, it is not possible to know ahead of time whether this will be a short, sharp bear market similar to 2018 or a more prolonged one. Whether we experience a V-, U- or L-shaped recovery will give us an indication of the likely length of the current bear market.

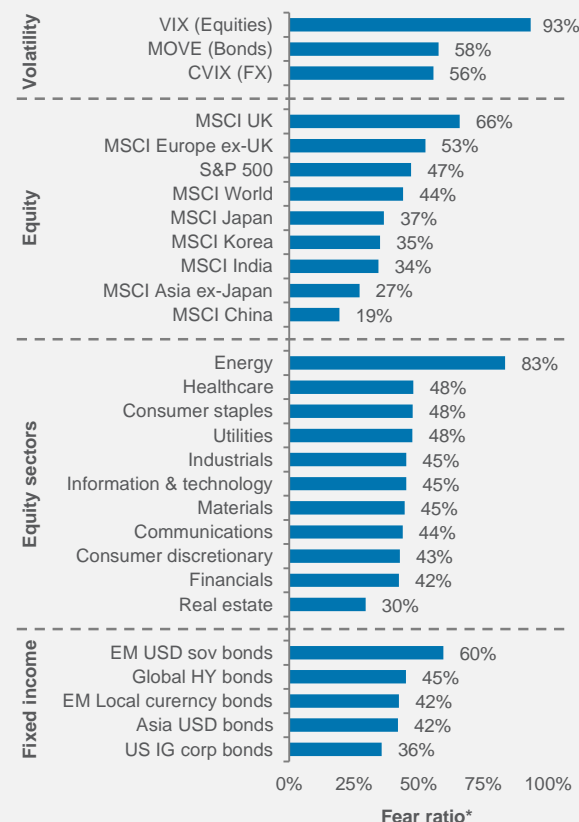
Q What is the market impact of the collapse in oil prices?

For equity markets, the energy equity sector could see continued weakness, especially if oil prices fall further. However, it is getting harder to justify a bearish stance given just how much bad news is already in the price.

Dividend yields in this sector are as high as 10% for some stocks, but the focus is on the sustainability of dividends. If there is renewed effort

Among all market indicators, the recent equity market volatility comes closest to that seen during the Global Financial Crisis; energy sector equity drawdown is next

Recent market moves across asset classes compared with the height of the Global Financial Crisis

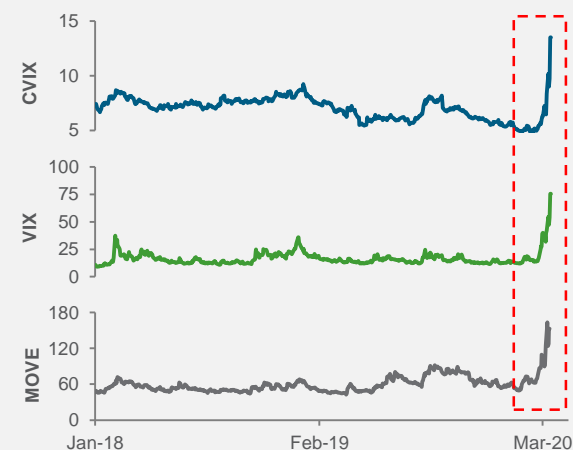


Source: Bloomberg, Standard Chartered

* For equity indices, sectors and EM local currency bonds, the Fear Ratio has been computed by comparing the magnitude of the index recent moves with its magnitude during the Great Financial Crisis. For the remaining bond markets and volatility indices it compares the current levels versus the peak level during the Great Financial Crisis.

Volatility has surged across asset classes, with that for the S&P500 index at its highest since the 2008 financial crisis

Volatility of currencies, S&P500 index and US Treasuries



Source: Bloomberg, Standard Chartered

to put in place an OPEC+ agreement, dividends would be secured and the sector would rebound sharply.

Interestingly, low oil prices could act as the catalyst for an economic and eventual earnings recovery as the drop in energy prices is akin to a tax cut for US households and will improve the fiscal position of countries such as India, which heavily subsidise oil prices.

The key takeaway for clients centres on the likelihood we are entering a bear market. However, it may be shorter lived than the great bear markets of the Gulf War, Dot Com and Global Financial Crisis if the policy response results in a V- or U-shaped virus scenario.

Q What would your advice be to investors today? Stay invested, reduce exposure or add exposure to equities?

The response depends to some degree on how you are currently positioned relative to your risk profile. The key is a context of diversified allocations.

For those who are fully invested, given our views and the size of market decline we have already seen, staying invested is probably the best decision. Typically, markets fall around 25% during recessions. We have already seen the decline exceed this, and our central scenario is for the economy to ultimately recover strongly from weakness in the first half.

For those who are among the many who have been reluctant to embrace the bull market, this is probably a good time to be adding to equity investments.

Q In your view, what are the biggest risks that could trigger into a much more positive scenario?

The main one is the pace of new COVID-19 infections outside China. If we were to see these peak, we believe this would be very positive for global equity markets.

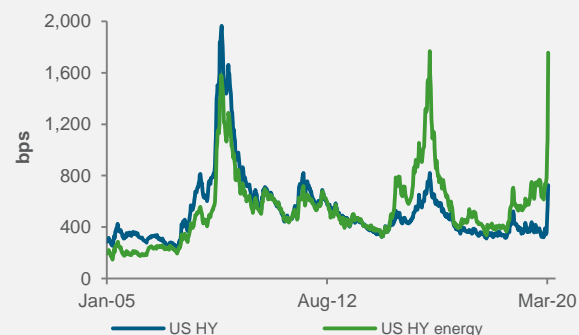
Signs that the Chinese economy is recovering would also be a significant positive.

We should also keep an eye on monetary and fiscal policies, including the size of any fiscal stimulus in the US, China and Europe, whether the Fed eases sharply again and if the ECB follows suit.

From a technical perspective, markets are already oversold, and market diversity indicators suggest that even slightly less bad news could lead to a sharp bounce in the short term.

Yield premiums have surged across riskier bonds, with US High Yield bond premiums rising the most amid increasing stress on the energy sector with the collapse in oil prices

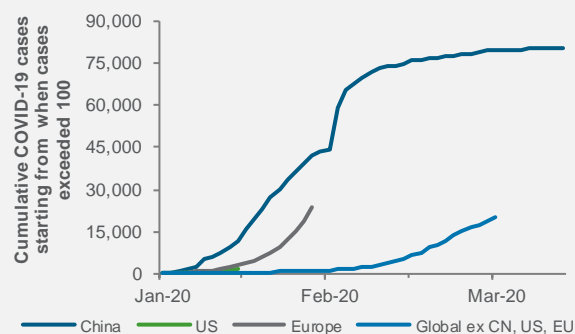
Bond yield premiums on EM USD government bonds, US High Yield bonds and US High Yield energy sector bonds



Source: Bloomberg, Standard Chartered

The spread of COVID-19 needs to peak in Europe and the US for market uncertainty to subside

Cumulative COVID-19 cases starting from when cases exceeded 100 in key economies, as of 11 March



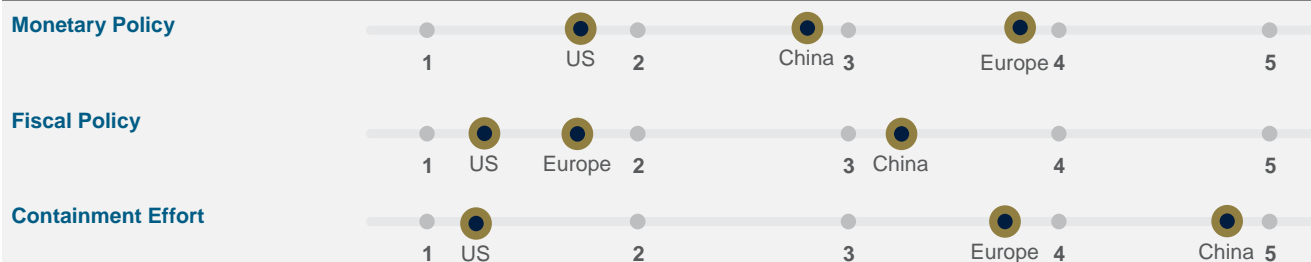
Source: The Center for Systems Science and Engineering (CSSE) at Johns Hopkins University; Standard Chartered

Governments and central bank policymakers have announced support measures to cushion the impact of COVID-19

Major containment and mitigation measures announced thus far

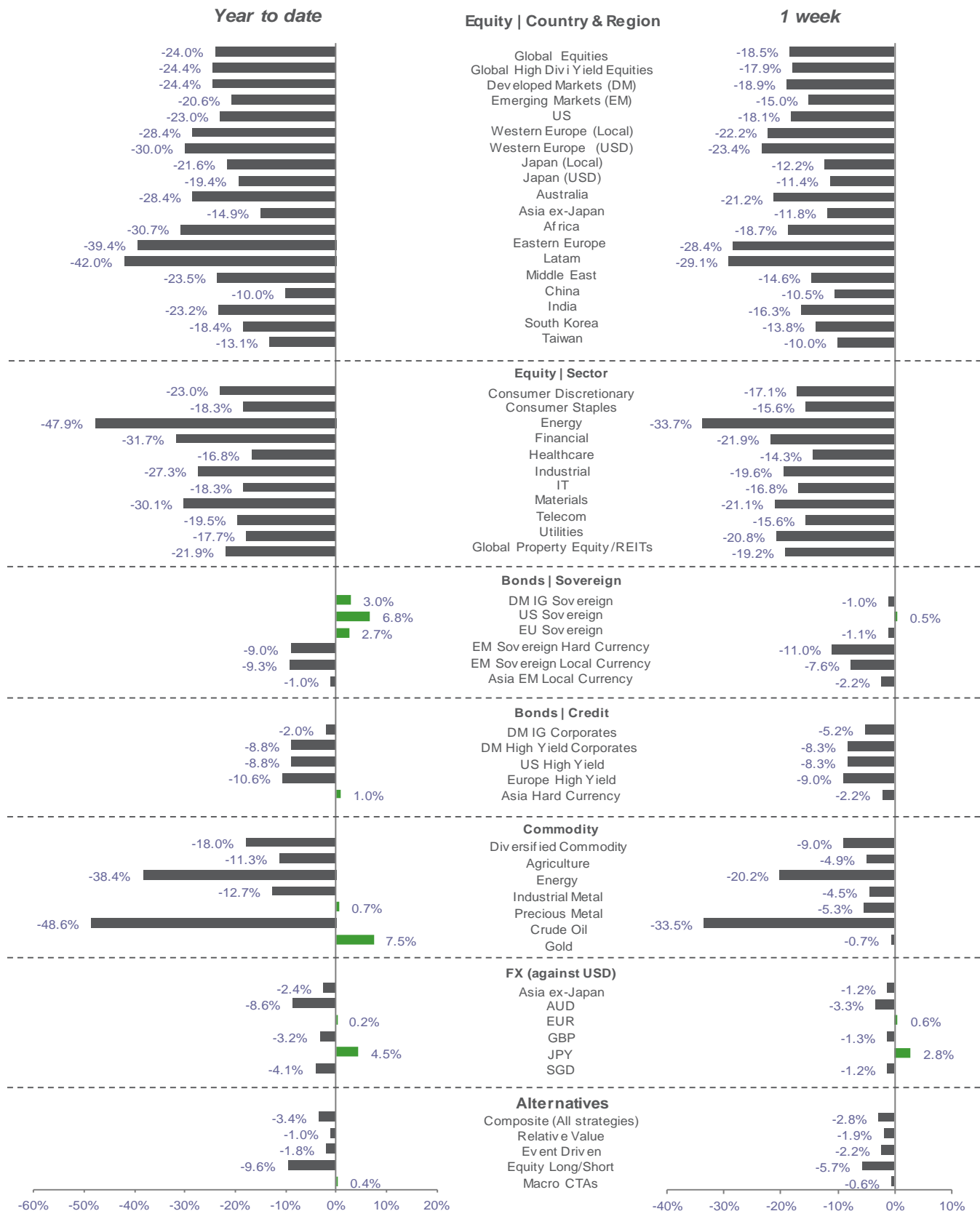
	China	Europe	US
Mitigation		<ul style="list-style-type: none"> Large gatherings ban in select cities Partial and complete schools and universities closed in select cities 	<ul style="list-style-type: none"> 19 states declared state of emergency Schools and universities closed in select states and major sports league suspended
Containment	<ul style="list-style-type: none"> Widespread containment policies Travel bans Work resumption targets Planes and trains chartered for migrant workers 	<ul style="list-style-type: none"> Italy in a state of lockdown Closure of all retail stores (except those deemed essential) Select European cities blocked travel from Italy 	<ul style="list-style-type: none"> All travel from Europe for the next 30 days banned
Monetary policy	PBoC: <ul style="list-style-type: none"> Interest rate cuts to various reference policy rates Banks allowed to delay recognition of non-performing loans (NPLs) Open market operations to inject ~CNY 820bn in liquidity from 2 February Extension of debt repayments for small and medium enterprises Additional targeted measures to support banks and corporates Expectations: <ul style="list-style-type: none"> Reserves required ratio (RRR) cuts Further lending to policy banks 	ECB: <ul style="list-style-type: none"> Lenient requirements for targeted long-term refinancing operations (TLTRO III) Additional LTROs to support liquidity conditions and the money markets Easing regulations for banks' capital and liquidity requirements Additional EUR 120bn of asset purchases until the end of the year BOE: <ul style="list-style-type: none"> Benchmark rate cut of 50bps (down to 0.25%) (unscheduled) Funding scheme for SMEs Bank's capital requirements lowered Fiscal stimulus amounting to ~1.5% of GDP to cushion Covid-19 impact 	Federal Reserve: <ul style="list-style-type: none"> 50bps Fed Funds rate cut on 3 March (unscheduled) Next FOMC meeting on 18 March Daily overnight liquidity operations increased to USD 175bn until 13 April Additional liquidity measures Expectations: <ul style="list-style-type: none"> Market expects over three rate cuts by year end Potential Fed QE announcement
Fiscal policy	<ul style="list-style-type: none"> Frontloading of local government special purpose bond issuance Easing of funding leverage restrictions for local government financing platforms Mandated bond proceeds to be spent on infrastructure projects Tax incentives for firms VAT exemptions for small tax payers Electricity costs cuts 	Italy: <ul style="list-style-type: none"> Earmarking of EUR 25bn (corresponding to 1.1% of GDP) Suspension of municipal/utility bills Moratorium on repayments on mortgage and bank loans Government to pay freelancers and parents staying home Germany: <ul style="list-style-type: none"> Small increase in investments over the next four years Restrictions eased for firms to subsidise the decrease in working hours for employees 	<ul style="list-style-type: none"> USD 8.3bn packaged aimed at medical and healthcare response Discussion held on temporary reduction in payroll taxes Discussions being held on relief measures for small and medium enterprises and industries afflicted by the virus spread (leisure and travel)

Our assessment of where policy measures stand in various countries (1 – Inadequate, 5 – Adequate)



Source: Standard Chartered

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 12 March 2020, 1 week period: 5 March 2020 to 12 March 2020

Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	JN	Core Machine Orders y/y	16-Mar-2020	Jan	-0.005	-3.5%
	CH	Fixed Assets Ex Rural YTD y/y	16-Mar-2020	Feb	-0.02	–
TUE	US	Retail Sales Ex Auto and Gas	17-Mar-2020	Feb	–	0.4%
	US	Industrial Production m/m	17-Mar-2020	Feb	0.4%	-0.3%
WED	JN	Exports y/y	18-Mar-2020	Feb	-0.046	-2.6%
	CA	CPI y/y	18-Mar-2020	Feb	–	2.4%
	US	Building Permits	18-Mar-2020	Feb	1495k	1550k
	US	Housing Starts	18-Mar-2020	Feb	1500k	1567k
THUR	JN	BOJ Policy Balance Rate	19-Mar-2020	19-Mar	–	-0.1%
	US	FOMC Rate Decision (Upper Bound)	19-Mar-2020	18-Mar	0.0075	1.3%
	JN	Natl CPI Ex Fresh Food, Energy y/y	19-Mar-2020	Feb	0.006	0.008
	US	Leading Index	19-Mar-2020	Feb	0.001	0.8%
FRI/ SAT	EC	ECB Current Account SA	20-Mar-2020	Jan	–	32.6b
	US	Existing Home Sales	20-Mar-2020	Feb	5.55m	5.46m

	Event	This Week	Date	Period	Actual	Prior
MON	GE	Exports SA m/m	09-Mar-2020	Jan	0.0%	0.2%
	GE	Industrial Production WDA y/y	09-Mar-2020	Jan	-1.3%	-5.3%
	EC	Sentix Investor Confidence	09-Mar-2020	Mar	-17.1	5.2
TUE	CH	PPI y/y	10-Mar-2020	Feb	-0.4%	0.1%
	CH	CPI y/y	10-Mar-2020	Feb	5.2%	5.4%
	JN	Machine Tool Orders y/y	10-Mar-2020	Feb P	-30.1%	-35.6%
	CH	Money Supply M2 y/y	10-Mar-2020	Feb	8.8%	8.4%
WED	UK	Industrial Production y/y	11-Mar-2020	Jan	-2.9%	-1.8%
	US	CPI Ex Food and Energy y/y	11-Mar-2020	Feb	2.4%	2.3%
	US	Real Avg Weekly Earnings y/y	11-Mar-2020	Feb	0.7%	0.0%
THUR	EC	ECB Main Refinancing Rate	12-Mar-2020	12-Mar	0.0%	0.0%
	IN	CPI y/y	12-Mar-2020	Feb	6.6%	7.6%
	IN	Industrial Production y/y	12-Mar-2020	Jan	2.0%	0.1%
	US	PPI Ex Food and Energy y/y	12-Mar-2020	Feb	1.4%	1.7%
FRI/ SAT	US	U. of Mich. Sentiment	13-Mar-2020	Mar P	–	101

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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