Standard Chartered

market watch

This reflects the views of the Wealth Management Group

macro strategy | 09 February 2018

Markets nearing key support

SUMMARY

- **Overnight, the S&P500 declined sharply by 3.8%,** falling more than 3% in a day for the second time this week. It has declined by over 10% since its recent peak on 26 January, meeting the widely accepted threshold for a correction.
- **Our positive outlook on equities remains unchanged** as earnings outlook and global growth remain on a strong footing. We would look at the current sell-off as an opportunity to add exposure to equities
- **Key technical levels.** The S&P500 has declined below its 100 day Moving Average (MA). We would closely watch the 200 day MA (at 2538) as the next key support.

BACKGROUND

- **US equities witnessed another sharp drop**. The S&P500 fell by 3.8% while Dow Jones declined by 4.2% overnight. Yesterday's decline extended S&P 500's losses to over 10%, since the peak on 26 January. Most of the major equities indices in US and Europe are in negative territory for 2018. VIX index rose overnight, highlighting increase in market volatility.
- **Likely driven by technical factors rather than inflation**. While the recent bout of the sell-off which began last Friday was triggered by strong wage growth data and concerns about higher inflation, yesterday's sell-off was likely triggered by technical factors and rebalancing. In fact the inflation expectation expectations declined yesterday and have broadly declined over the past week. 10-year US Treasury yields remained broadly unchanged yesterday.

WHAT DOES THIS MEAN FOR INVESTORS?

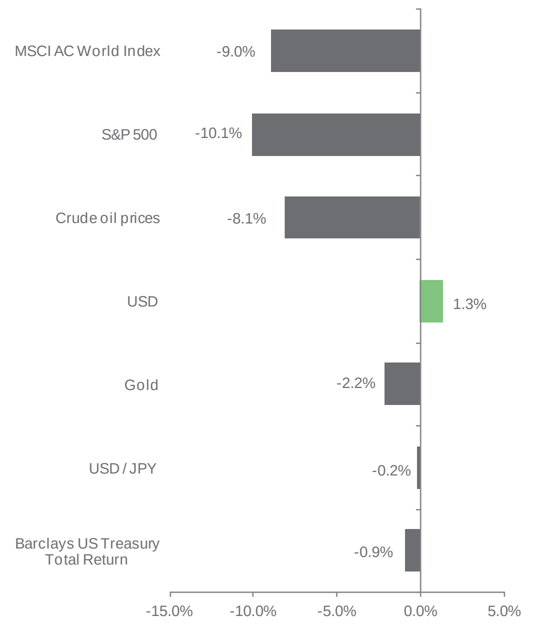
- **Weakness could cascade to Asian and Euro area equities.** Over the past week, overnight moves have had a strong influence on Asian and Euro area equities. Hence, it would not be surprising to see both markets open lower, on the back overnight moves in the US.
- **Fundamentals remain unchanged**. As we have highlighted in our recent publications, the earnings expectations and global growth remain on positive trajectory. US earnings expectations have been upgraded to 18% from 12% at the start of January, while growth forecasts have been upgraded across US, Europe and Emerging Markets. Once the dust settles, the sell-off could provide an attractive entry point for long-term investors.

WHAT TO WATCH OUT FOR

- **200DMA is key.** As we have highlighted earlier, the 200DMA (1.7% below current levels) is a key support level as a rebound from here has historically signaled above-average positive returns in the short term, but a sustained drop below signals near-term weakness.
- **Policymaker comments.** Given the magnitude of the sell-off, markets are likely to look out for supportive comments from the governments and the central banks.

Equities markets have seen a sharp decline over the past two weeks

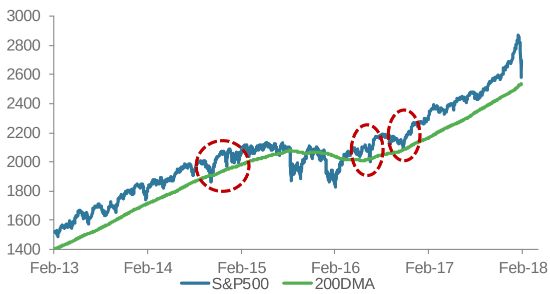
Change in asset prices, 26-Jan-2018 to date



Source: Bloomberg, Standard Chartered

200 day moving average remains a key support for S&P500

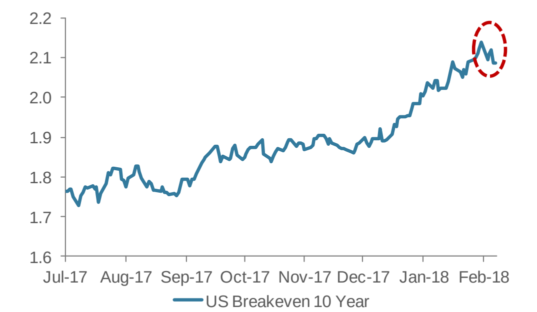
S&P 500 and the 200 day moving average



Source: Bloomberg, Standard Chartered

US Equities fell despite slight dip in recent inflation expectations

10-year US inflation breakevens



Source: Bloomberg, Standard Chartered

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