

Market Watch

Looking beyond the bounce

Summary

- **Equities and bond yields rebounded yesterday following sharp drops on Monday. Gold and the yen fell.**
- **Most asset classes appear to be pricing a partial chance of a recession, albeit with a wide range of estimates.**
- **We lay out six things to watch in coming days that could offer a near-term guide to markets.**

Background

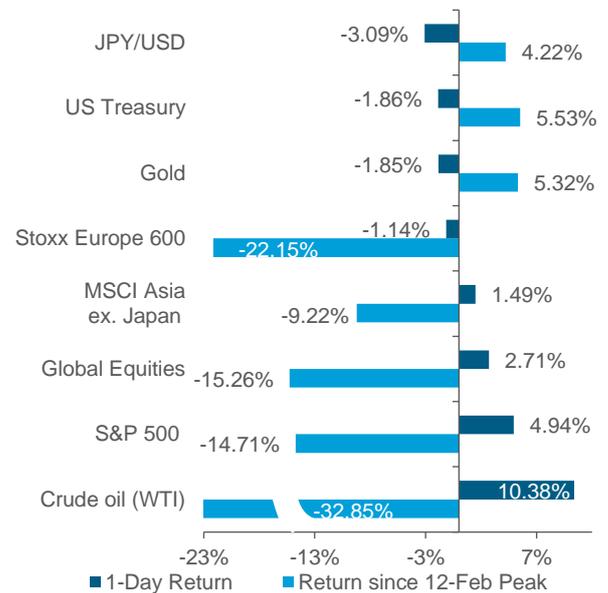
- Equity markets rebounded sharply following significant drops in prior days. This followed reports that the US was considering supportive measures such as payroll tax cuts and support for hard-hit industries like airlines. Italy said it would increase fiscal stimulus for the fourth time in a month and the ECB is set to meet this week amid expectations of liquidity easing for small and medium enterprises.
- The S&P 500 rose 4.9% and MSCI Asia rose 1.5%, though Euro Stoxx 600 was still down 1.1%. The US 10-year government bond yield rebounded 26bps to 0.80% while the US Dollar rose 1.6%. Oil jumped 10.4%. Gold and the Japanese yen, generally viewed as safe havens, fell 1.9% and 3.1%, respectively.
- However, S&P500 futures were about 1.5% lower at 8:40am SGT this morning, hinting at possible weakness ahead.

What does this mean for investors?

- Many economic models are now expecting global growth to slow to between 2.4-2.8%, close to the loosely-defined 2.5% recession threshold. This would be consistent with market expectations that the Fed may cut rates to zero by mid-year.
- Based on the size of historical recessionary bear markets, we estimate the S&P500 is pricing an approximately two-thirds chance of a recession while corporate bond markets are pricing an approximately one-third chance of a recession. Equity volatility (VIX) points to about a 90% recession chance.
- Looking ahead, in addition to the pace of new COVID-19 infections, we are focusing on six areas: (i) positioning and diversity data, which currently argue markets are oversold; (ii) President Trump's meeting with Congress on potential stimulus; (iii) nature of ECB easing, and whether it is accompanied by broader fiscal stimulus; (iv) whether the Fed eases again at its 18 March scheduled meeting; (v) the size of any fiscal stimulus in the upcoming UK budget; and (vi) high frequency economic data (eg. traffic congestion) to gauge the pace of economic activity resumption in China.
- **Technical watch:** The S&P 500 index is looking oversold in the short term. A positive RSI-price divergence (ascending RSI vs. declining index) indicates the slide is losing steam. However, the index could remain volatile in the short term.

Markets rebounded sharply yesterday

Selected market performance on 10 March



Source: Bloomberg, Standard Chartered

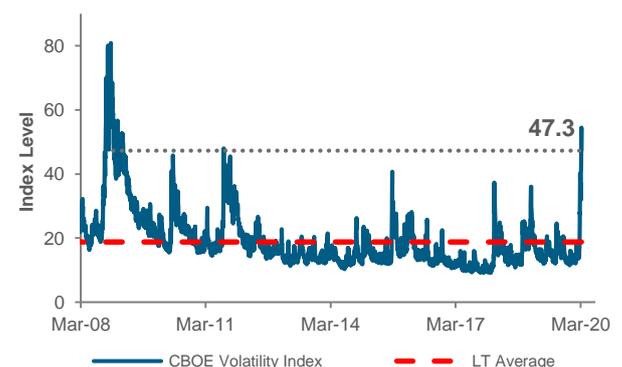
Table of technical support levels for selected assets

Index	Spot	1st support	% from spot	2nd support	% from spot
S&P500	2,882.23	2,640.00	-8.4%	2,347.00	-18.6%
Stoxx 600	335.64	327.00	-2.6%	303.00	-9.7%
MSCI Asia ex.Jp	624.83	571.00	-8.6%	496.00	-20.6%
UST-10Yr	0.75	0.50	-33.5%	0.32	-57.7%
Gold	1,649.06	1,605.00	-2.7%	1,547.00	-6.2%

Source: Bloomberg, Standard Chartered

US equity and bond market volatility remains high despite yesterday's rebound

VIX (CBOE S&P500 Volatility) Index



Source: Bloomberg, Standard Chartered

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