

Market Watch

Policymakers accelerate support

Summary

- **The S&P 500 fell 5.2% as oil fell by 24% to an 18-year low. The US 10-year Treasury yield jumped to 1.19%, while the US Dollar rose to a 3-year high.**
- **The ECB announced fresh stimulus while the Fed and Bank of England injected additional liquidity. Fiscal responses appear to be gathering momentum.**
- **What to watch: Liquidity conditions, COVID-19 infections, fiscal/monetary policy; China real-time data.**

Background

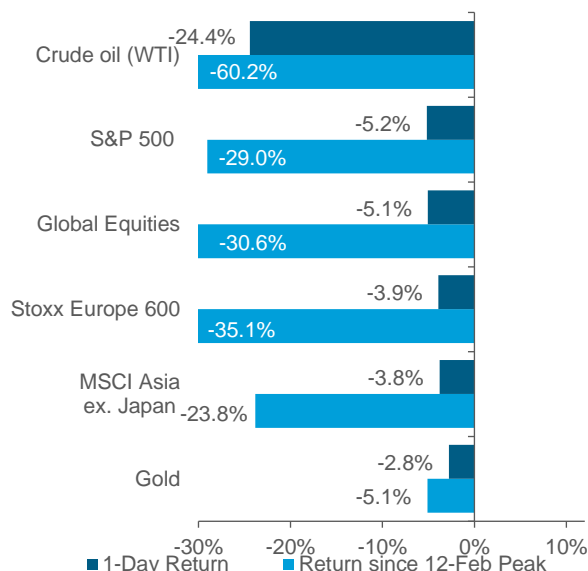
- Stocks, commodities, corporate bonds (as indicated by the cost of default insurance) and government bonds all fell yesterday in a simultaneous sell-off. The S&P 500 fell 5.2% overnight, reversing almost all gains since 2017, while Asian equities fell 3.8%. The 10-year US Treasury yield spiked to 1.19% while the USD rose against most currencies. Traditional safe-haven, such as the Swiss Franc and gold, were also not spared, likely as investors attempted to raise cash.
- The ECB launched a massive USD 819bn 'Pandemic Emergency Purchase Program' to buy more corporate and sovereign bonds. The Fed relaunched a crisis-era credit facility allowing primary dealers to access short-term loans to support market functioning while also raising liquidity to the overnight repo market in a bid to unfreeze funding and credit markets.
- Fiscal responses were also forthcoming as the number of confirmed COVID-19 cases crossed 200,000 globally. The US Senate passed a bill to expand paid leave and unemployment benefits and a planned USD 1tn package is pending approval.

What does this mean for investors?

- The quick pace at which policymakers are announcing new measures suggest they are following up on the G7 'whatever is necessary' commitment to help mitigate the fallout from COVID-19. US equity futures show a market bounce is likely following yesterday's losses, but Asian equities (open markets and futures) appear more mixed.
- In addition to ongoing monetary and fiscal policy, new COVID-19 cases and China real-time economic data, we would also continue to monitor signs of stress in bond, repo and commercial paper markets closely.
- **Technical watch:** The S&P 500 index on Wednesday briefly fell below major support at the December 2018 low of 2347, but failed to close below. The Relative Strength Index indicates that the slide is losing steam for now. However, at the very least, the S&P500 index needs to stop making new lows and subsequently clear immediate resistance (now at about 2525) for short-term downward pressure to fade.

Equities sold off sharply on liquidity concerns

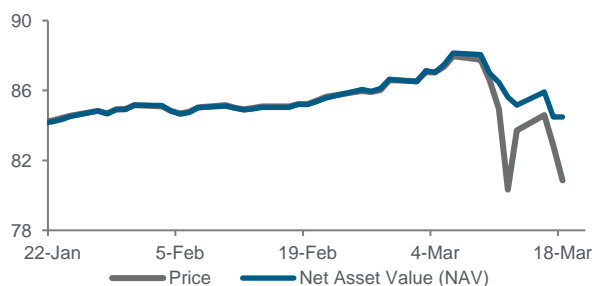
Selected market performance on 18 Mar and since 12 Feb*



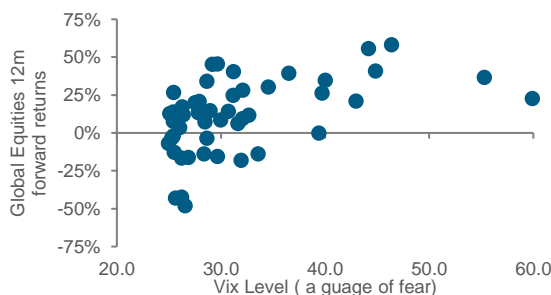
Source: Bloomberg, Standard Chartered

There are continued indications of liquidity stress

Price vs. Net Asset Value (NAV) of Vanguard Total Bond Market ETF (BND US)



Forward 12 month returns tend to be positive following high 'fear' (VIX) levels



Source: Bloomberg, Standard Chartered

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