

Market Watch

Renewed growth worries

Summary

- The S&P500 index fell 4.4% and the US 10-year Treasury yield fell to 0.58% amid renewed market worries over the economic impact of COVID-19 and related shutdowns. The financial sector led losses as UK banks scrapped dividends.
- Economic surveys showed weakness across most major regions. The OECD estimated that each month of lockdown would hit annual growth in OECD economies by around 2%. New COVID-19 infections surged in the US.
- **What to watch:** US and European COVID-19 infection rates, any progress on EU Eurobond issuance, China activity data and money market liquidity.

Background

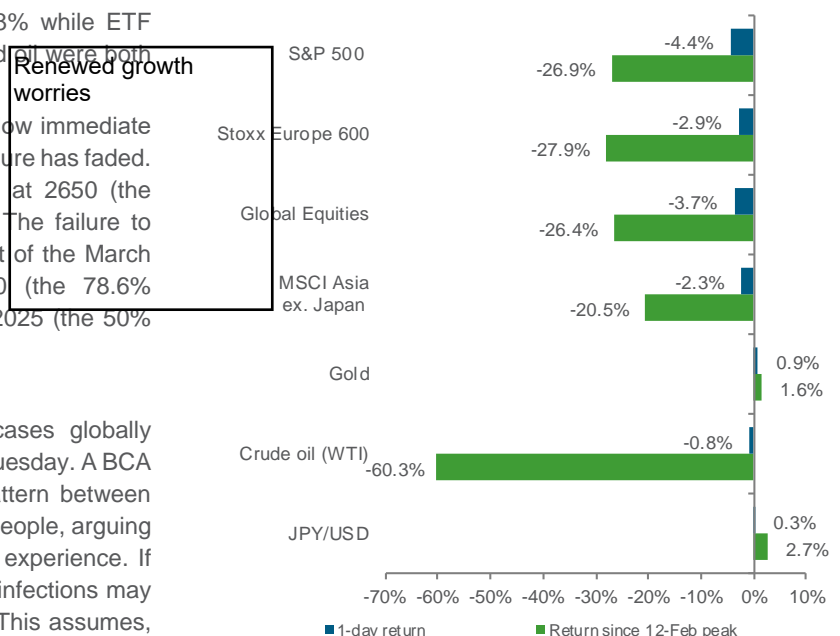
- The S&P500 index fell 4.4% and the Euro Stoxx 600 fell 2.9%. The 10-year US Treasury yield declined to 0.58% while ETF markets suggested high yield bonds fell. Gold and oil were both slightly higher. The USD (DXY) index rose 0.4%.
- **Technical watch:** The S&P 500 index's drop below immediate support at 2520 indicates that recent upward pressure has faded. This follows a retreat from near key resistance at 2650 (the 38.2% retracement of the February-March fall). The failure to sustain gains this week raises the risk of a retest of the March low of 2192. Subsequent support is at 2150 (the 78.6% retracement of the 2015-2020 rise) followed by 2025 (the 50% retracement of the 2009-2020 rise).

Updates

- 1) **Coronavirus containment:** The number of cases globally crossed 900k amid 22k new cases in the US on Tuesday. A BCA Research study showed a reasonably close pattern between Italian and US new COVID-19 cases per million people, arguing the US is approximately 2 weeks behind Italy's experience. If this pattern is maintained, it would suggest new infections may start peaking in about 10 days or so in the US. This assumes, of course, that Italian data does not signal a re-acceleration. On this, the number of new cases in Italy showed a rise of 4800 on Wednesday compared to about 4000 on Monday and Tuesday. Both Italy and Germany extended their lockdown/distancing measures to mid-April (Italy's were due to end on Friday).
- 2) **Sentiment:** The financial sector in the UK and the US weakened significantly after the UK's largest banks said they would scrap equity dividends under pressure from the Bank of England. This weakened sentiment for financial sector equities significantly not only in the UK, but also in the US.
- 3) **Economic impact:** The OECD estimated the lockdowns will have a direct impact of 20-25% of daily GDP (or about 2% annual GDP) if lockdowns last for a month and governments are successful in mitigating corporate defaults and job layoffs.

Equities pulled back after a strong start to the week

Selected market performance on 1 Apr and since 12 Feb



Source: Bloomberg, Standard Chartered

Table of technical support levels for selected assets

| Index | Previous close | 1st support | % from spot | 2nd support | % from spot |
|------------------|----------------|-------------|-------------|-------------|-------------|
| S&P 500 | 2,470.50 | 2,192.00 | -11.3% | 2,025.00 | -18.0% |
| Stoxx 600 | 310.77 | 269.00 | -13.4% | 233.00 | -25.0% |
| MSCI Asia ex. Jp | 547.09 | 501.00 | -8.4% | 435.00 | -20.5% |
| UST-10Yr | 0.58 | 0.32 | -0.28 | 0.20 | -0.40 |
| Gold | 1,590.59 | 1,545.00 | -2.9% | 1,451.00 | -8.8% |

Source: Bloomberg, Standard Chartered

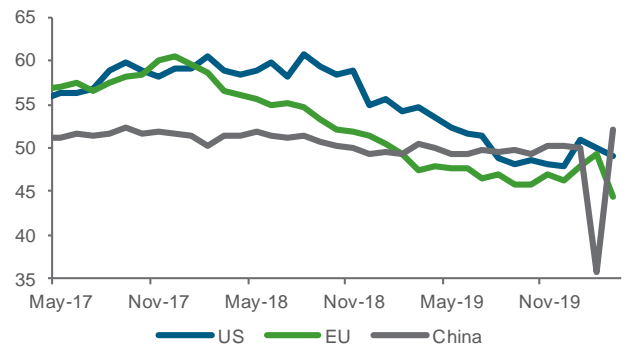
China's March PMI rebounded in March, showing that the economy troughed in February at the height of the COVID-19 lockdown. At one level, this is a positive, but the recovery is still tepid. Our sense is that the April data will be better as suggested by real-time indicators like electricity consumption, public transport usage and traffic congestion. China's recovery profile is important for the rest of the world as it might indicate how quickly other economies will recover once lockdowns ease.

US manufacturing PMI (ISM) data was actually better than expected, but still slipped below the 50 threshold separating expansion from contraction. It was supported by a strong supplier deliveries component – in this environment, it is likely indicative of the supply-side shock and, therefore, is a negative. Excluding this component, the ISM index would have been around 45 rather than the 49. Tonight's initial jobless claims data and, on Friday, the employment report and non-manufacturing PMI data will be important.

Elsewhere, **Euro** area business confidence hit the lowest level since the debt crisis of 2012, while the Tankan survey in Japan showed business sentiment at a 7-year low.

Business confidence surveys weakened in the US and Europe, but moved back above 50 in China

Manufacturing PMI data: US (ISM), Euro area (Markit) and China (official)

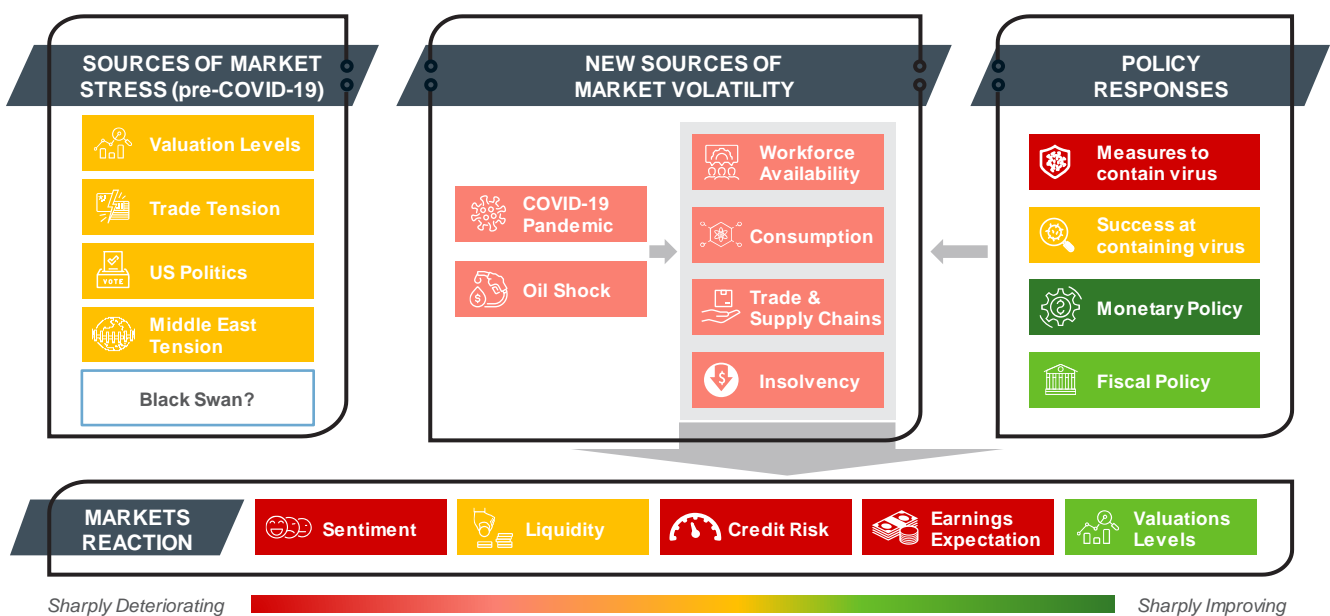


Source: Bloomberg, Standard Chartered

What does this mean for investors?

- Markets are likely to remain volatile in the coming days as new COVID-19 cases continue to rise in the US and resulting lockdowns remain likely to extend in parts of both Europe and the US. The technical picture also suggests the short-term outlook could remain weak. That said, continued signs of a recovery in China's economic activity is a positive amid increasingly attractive valuations across both equities and corporate bonds, though the ability to ride out short term fluctuations remains key.

Things we are watching and our assessment



Source: Standard Chartered

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