

# Market Watch

## Second wave?

### Summary

- US and European stock markets fell sharply on Thursday as fears of a second wave of coronavirus cases in the US increased.
- Sentiment swings are normal as equity market volatility declines and the stock market recovers
- **What we are keeping an eye out for:** Size and duration of 2<sup>nd</sup> wave outbreak, easing of lockdowns, US-China tensions.

### Background

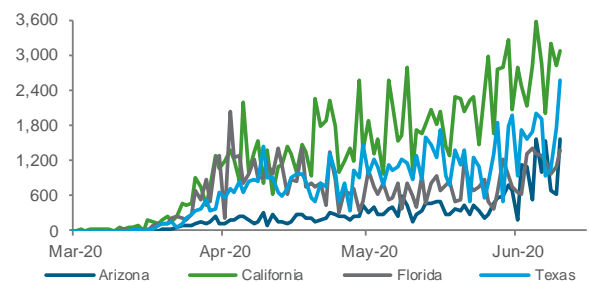
- On Thursday, the S&P 500 fell 5.9% and the EuroStoxx 50 was down 4.5%. The 10-year US government bond yield fell 8bps while the US dollar (DXY) index rose 0.7%. The gold price actually fell slightly on the day.
- Media reports have given three potential reasons for the sell-off: the 'slow' US labour market recovery, the Fed's downbeat view on the economy and increased concerns of a 2<sup>nd</sup> wave of COVID-19 infections in some US states.
- We believe the first two could easily be interpreted as positives: the number of people receiving unemployment benefits in the US has fallen by 4 million in 4 weeks and the Fed's promise of extremely low interest rates for the next 2 years should keep corporate funding costs low. Therefore, we believe the increased risks of a sizeable 2<sup>nd</sup> wave, and the fact that the market (especially the tech heavy Nasdaq) needed to take a breather following very strong gains, is the more likely catalyst.

### What does this mean for investors?

- Our net assessment is the economy is past its worst, aided by monetary and fiscal policy stimulus. Over time, this should support equity markets.
- That said, we have been arguing the risks of a pullback were increasing. The economic recovery process is unlikely to be smooth and the market was getting increasingly confident in a positive outlook. Our biggest fear was a 2<sup>nd</sup> wave of infections. While we are not convinced we would see a resumption of the lockdowns, certainly not on the scale of the first wave, it would likely undermine the pace of the recovery as people change behaviours and sentiment takes a hit.
- Trying to time a specific bottom, as always, is challenging. This means a measured strategy, like 'prudent averaging-in', may be a better approach to managing market exposure today. Please look out for our Weekly Market View publication this afternoon for more details.
- **Technical watch:** The S&P 500 index has pulled back from near key resistance at 3260. The index is now approaching crucial support at the end-April high of 2955. Any break below would confirm that the three-month long upward pressure had eased. Subsequent support is at the mid-May low of 2767.

### COVID-19 cases rising in major US southern states

New COVID-19 cases, selected US states



Source: Bloomberg, Standard Chartered

### US implied volatility is still following a typical path after a bear market

US S&P implied volatility (VIX) index from its peaks in March 2020 and November 2008



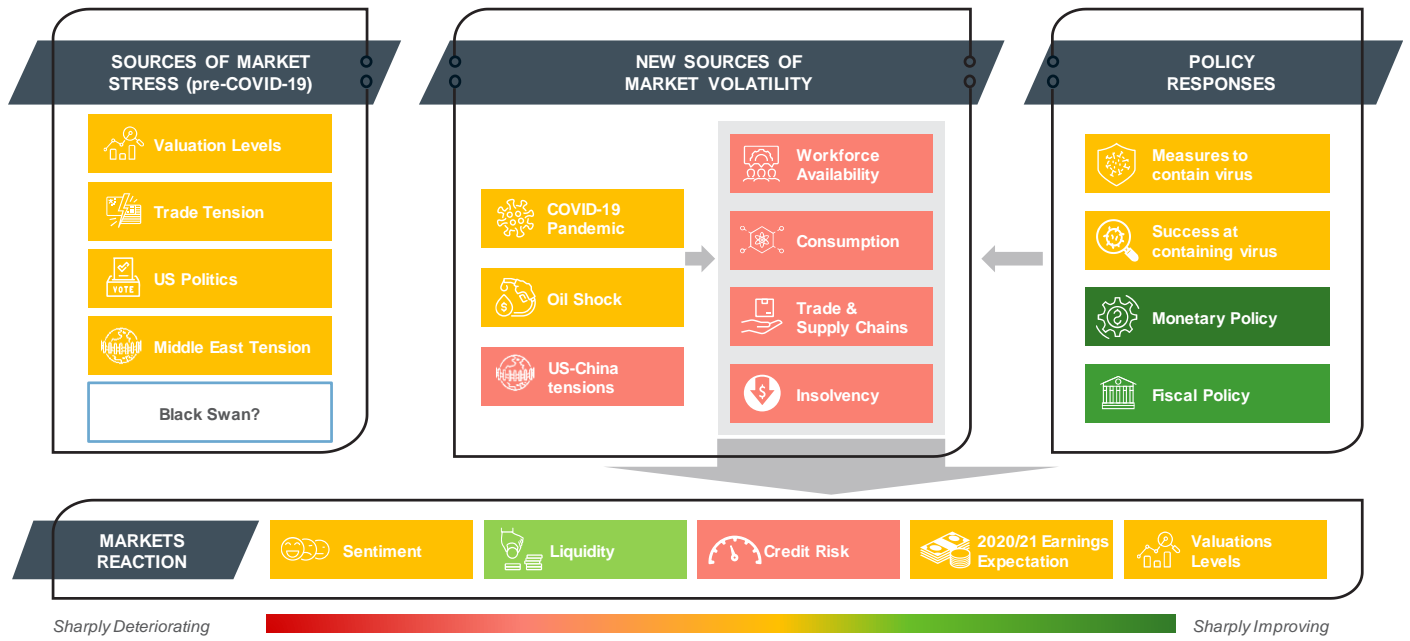
Source: Bloomberg, Standard Chartered

### Key technical levels

	Prev. Close	Support		Resistance	
SPX	3,002.10	2,955.00	-1.6%	3,260.00	8.6%
Stoxx 600	353.07	349.00	-1.2%	375.00	6.2%
MSCI AXJ	642.65	610.00	-5.1%	655.00	1.9%
UST10yr	0.65	0.54	-0.11	0.96	0.31
Gold	1,727.15	1,670.00	-3.3%	1,765.00	2.2%

Source: Bloomberg, Standard Chartered

Things we are watching and our assessment



Source: Standard Chartered

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