

Market Watch

Stocks vulnerable near-term

Summary

- **Equity weakness extends after US Centre for Disease Control warning, further weakening the near-term technical outlook**
- **We monitor COVID-19's international spread, China's economy reopening, US Democrat nomination, positioning, technicals to assess the near-term outlook.**

Background

- US equity markets extended their fall amid a warning from the US Centre for Disease Control (CDC) that the US should prepare for potentially "severe" disruptions if COVID-19 turned into a pandemic.
- The CDC's comments stood in contrast to upbeat comments by White House Economic Advisor Kudlow, who said "the coronavirus is very much under control in the USA". Meanwhile, Fed Vice-Chair Clarida said it was "too soon to even speculate...whether [the virus] will lead to a material change in the outlook."
- Some reports also cited significant selling by systematic strategies, following excessively long positioning earlier, as being a key contributor to continued equity market weakness.

Market Reaction

- Global equities fell 2.3% yesterday. As the chart illustrates, the S&P500 registered the largest overnight fall, followed by oil and the Euro Stoxx 600. Asian equities were up slightly.
- The US 10-year yield fell as low as 1.305% intra-day before closing at a new record low of 1.352%. However, gold fell.

What does this mean for investors?

The US CDC's warning likely amplified the market's key concern – whether a further spread of COVID-19 triggers more widespread and significant economic activity shutdowns.

We believe monitoring the (i) pace of the Chinese economy's reopening, (ii) magnitude of policy stimulus, (iii) pace of positioning unwinding, (iv) US Democrat Presidential nomination and (v) market technicals is key to assessing the near-term outlook.

What is the technical outlook?

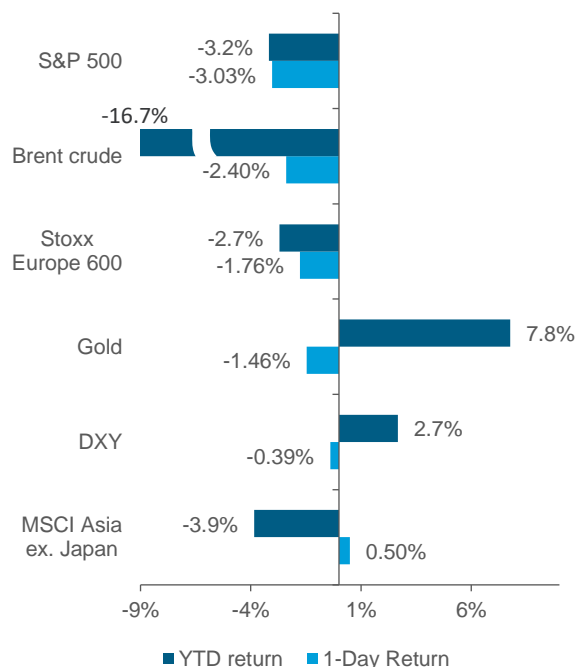
The S&P500 broke below key support, out of a rising trend channel. This suggests a test of the 200-day moving average (currently around 3044, about 2.7% lower) is increasingly likely. Asian equities have technical support about 8% below current levels.

This paints a relatively weak technical picture, suggesting equity market weakness could extend short-term, especially if Asian equities break below their 200-day moving average.

Whether key support levels (see table) hold would be one way to assess how far market weakness extends, in our view.

US equities extended weakness, but gold fell too

Selected market performance, 25-Feb-2020, local currency



Source: Bloomberg, Standard Chartered

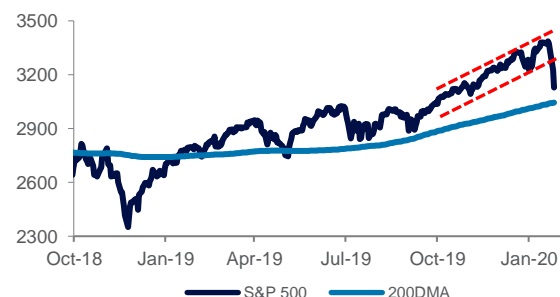
Table of technical support levels for selected assets

| Index | Spot | 1st support | % from Tue close | 2nd support | % from Tue close |
|-----------------|---------|-------------|------------------|-------------|------------------|
| S&P500 | 3,128.2 | 3,044 | -2.7% | 2,870 | -8.3% |
| Stoxx 600 | 440.3 | 396 | -10.1% | 376 | -14.6% |
| MSCI Asia ex.Jp | 661.8 | 609 | -8.0% | 571 | -13.7% |
| UST-10Yr | 1.35% | 1.32% | -3bps | 1.25% | -10bps |
| Gold | 1,635.1 | 1,590 | -2.8% | 1,546 | -5.5% |

Source: Bloomberg, Standard Chartered

US equities broke support, pointing to a possible test of the 200-Day Moving Average

S&P500 index with its 200-day moving average



Source: Bloomberg, Standard Chartered

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