

Market Watch

US stocks enter correction

Summary

- **Equity weakness extended on Thursday, pushing the S&P 500 into correction territory, amid falling market earnings and interest rate expectations.**
- **US Treasury yields ended the day just above a record intraday low of 1.24%. However, gold was little changed.**
- **The near-term focus remains on COVID-19's spread globally as new infections outside China accelerate.**

Background

- US equity markets extended their fall as fears of a global pandemic, and possible resulting economic shutdowns, intensified.
- California's governor said the state is monitoring 8,400 people for signs of the virus while reports suggested markets were paring back their 2020 earnings expectations. The WHO stated that all countries need to prepare to combat the coronavirus.

Market Reaction

- Global equities fell 3.3% yesterday. The S&P500 registered a 4.4% drop, moving it into correction territory as it now sits 12% below its recent peak, and broke below its 200-day moving average. Brent oil and most European markets followed suit, falling between -3 and -4% (see chart).
- The 10-year US Treasury yield fell to a new intraday low of 1.24% before closing at a new record low of 1.261%. Gold was only modestly higher, likely due to stretched positioning. Markets are now pricing in three Fed rate cuts by end-2020.

What does this mean for investors?

A combination of factors likely triggered further equity market weakness yesterday as markets continued to worry whether a further spread of COVID-19 triggers more widespread and significant economic activity shutdowns. The World Health Organization (WHO)'s warning to prepare to fight the virus was likely a catalyst amid rising reports of economic and earnings expectations downgrades for 2020.

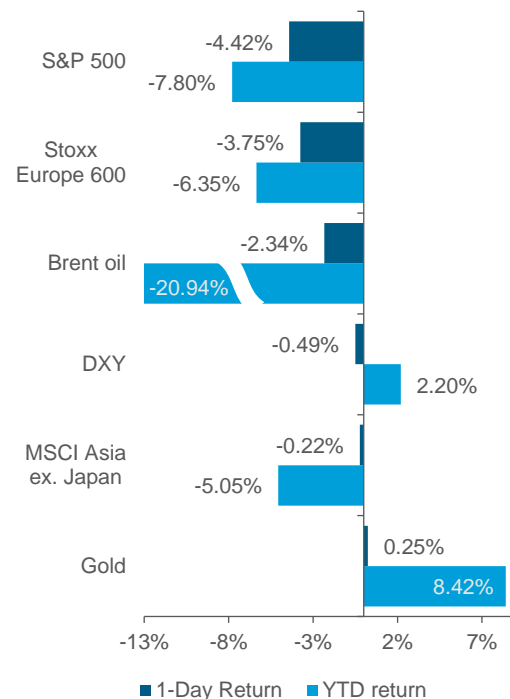
As we stated recently, monitoring the (i) pace of the Chinese economy's re-opening, (ii) magnitude of policy stimulus, (iii) pace of positioning unwinding, (iv) US Democrat Presidential nomination and (v) market technicals is key to assessing the near-term outlook. Closely monitoring the pace of COVID-19's global spread in the coming days is likely key in assessing how expectations of a much more widespread economic slowdown develop.

What is the technical outlook?

The S&P 500 index's fall below the key 200-day moving average indicates the index could weaken further near term. Next supports are at 2855 (4.2% below Thursday's close) and 2728 (8.4% below Thursday's close). See table alongside for more.

US equities enter correction territory

Selected market performance, 27-Feb-2020, local currency



Source: Bloomberg, Standard Chartered

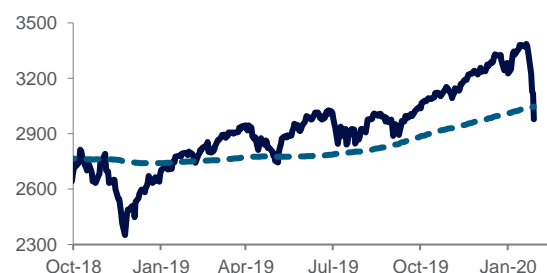
Table of technical support levels for selected assets

Index	Spot	1st support	% from Thr close	2nd support	% from Thr close
S&P500	2,978.76	2,855.00	-4.2%	2,728.00	-8.4%
Stoxx 600	389.45	375.00	-3.7%	361.00	-7.3%
MSCI Asia ex.Jp	653.48	628.00	-3.9%	571.00	-12.6%
UST-10Yr	1.26	1.23	-2bps	1.06	-20bps
Gold	1,647.00	1,590.00	-3.5%	1,547.00	-6.1%

Source: Bloomberg, Standard Chartered

US equities broke below the 200-Day Moving Average, pointing to further near-term weakness

S&P500 index with its 200-day moving average



Source: Bloomberg, Standard Chartered

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