

## Still monitoring key technical levels

### SUMMARY

- **US equity markets plunge as trade, growth worries return.** The S&P 500 index fell 3.2% overnight. The 10-year US bond yield fell 6 bps while the USD was largely unchanged.
- **Reassessing growth expectations.** A lack of clarity on US-China 'trade truce' specifics and a rise in 2 and 3 year US Treasury yields above 5-year yields likely fed US growth concerns.
- **Technical levels, fundamental indicators key.** The S&P 500 continues to hold within its recently established 2600-2800 range, with yesterday's weakness not breaking any key support levels.

### BACKGROUND

- **A renewed focus on the US yield curve.** A big focus for the market yesterday was an inversion of a specific part of the US yield curve (ie. 2 and 3 year yields rose to above the 5-year yield). An inverted yield curve – when shorter interest rates move higher above longer-dated ones – is often seen as an indicator of an impending recession. However, our focus remains on the spread between the 10-year and 2-year (or 3-month) Treasury bond yields as evidence suggests this longer gap has a much better track record. This spread has not inverted. Even if it does, it tells us little about whether a cycle is likely to end in months or years.
- **Trade jitters return.** Waning investor enthusiasm on the 90-day trade tariff cease-fire between US and China, given the lack of specifics, were also likely a driver of market weakness.

### WHAT DOES THIS MEAN FOR INVESTORS?

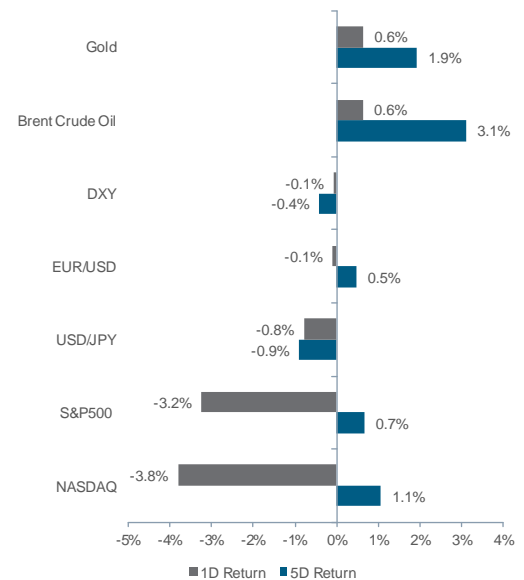
- **A repricing of growth expectations.** While US growth will likely slow next year, this merely reflects a return to trend-growth as the impact of the fiscal stimulus wanes, in our assessment. Key growth indicators (such as PMIs) remain robust, though we believe several key indicators – especially those linked to the US labour market – are the ones to watch as we believe they are key to how growth evolves and how the Fed responds from here.
- **USD/CNH sends a positive signal.** We note USD/CNH is down to an 11-week low. This together with a slightly softer USD are supportive of EM assets. We continue to prefer EM USD government bonds, though technicals suggest Asia ex-Japan equities may also be poised for a rebound.

### WHAT NEXT?

- **Fed-speak, US Beige Book and unemployment figures.** Any comments by Fed speakers together with US employment data over the next few days will be key to influencing the market's Fed rate expectations.
- **Key technical levels.** The S&P 500 continues to hold within its recently established range of 2600 – 2800, with yesterday's weakness not breaking any key support levels. Immediate support levels are at the October low of 2603 and the February low of 2533 while, on the upside, a sustained break above the 200-day moving average would be a key positive.

### US equities led weakness yesterday

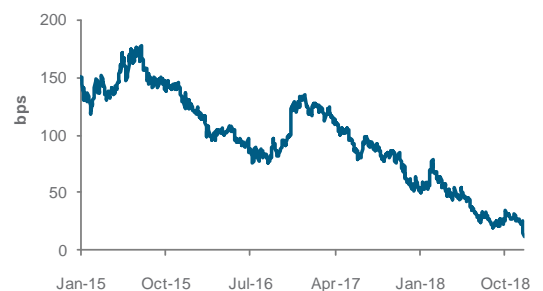
Performance of selected asset classes as of 4-Dec close



Source: Bloomberg, Standard Chartered

### The key 10yr-2yr yield curve has not yet inverted

Spread between the 2-year and 10-year US Treasury bond yields (bps)



Source: Bloomberg, Standard Chartered

### S&P 500 continues to trade sideways. Downside support near 2600 is key.

S&P 500, 200-day moving average (dma)



Source: Bloomberg, Standard Chartered

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