Standard Chartered Private Bank

Weekly Market View

Have risk assets bottomed?

COVID-19's global momentum is fading, but the US seems at least 1-2 weeks away from a peak. More economic & earnings downgrades are likely needed for risk assets to approach a bottom

Equities: Cuts in dividends and buybacks are a near-term risk; pace of recovery in revenue is key longer term

Bonds: Fed's backstop has provided support to US Investment Grade bonds. We prefer Asia USD bonds for their relative stability

FX: We turn bearish on USD/CNH, with 6.87 target

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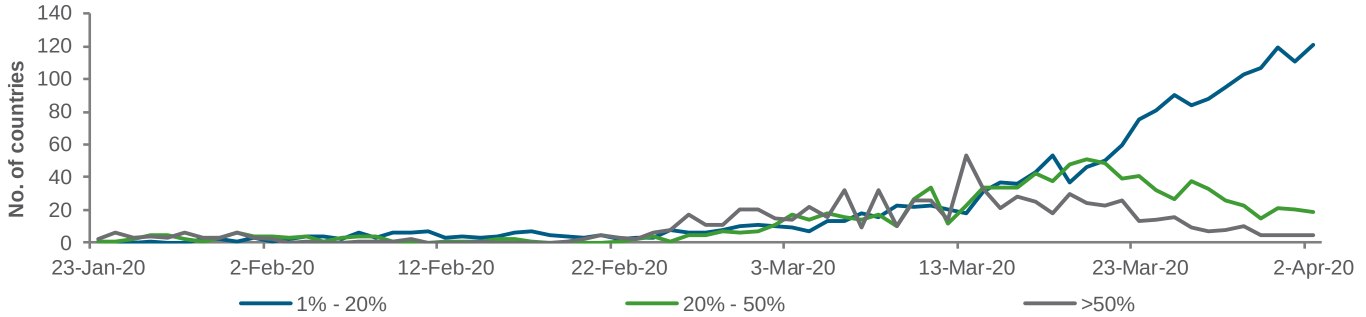
Chart of the week: COVID-19 outbreak's momentum may be fading

No. of countries categorised under a range of COVID-19 daily case growth rates: Only a few countries currently face high growth rates



Source: Johns Hopkins University, Standard Chartered

Editorial

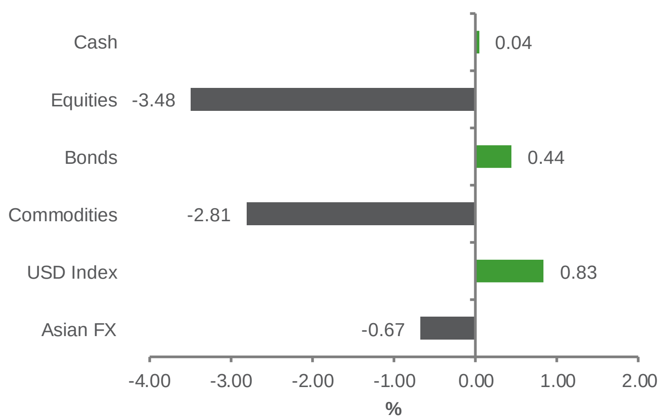
Have risk assets bottomed?

History shows one cannot answer this question with certainty. We highlight a few signposts to watch: 1) **Follow the US COVID-19 curve:** momentum of new cases has slowed globally, but US' continue to surge; Italy's example suggests the US could be 1-2 weeks away from a peak; there's also the risk of a second wave as economies re-open; **2) Economic impact:** Each month of economic lockdown could hurt annual GDP growth by 2ppt, but large fiscal stimuli should provide some relief; a sharp rebound in oil, while good for the energy sector, could hurt disposable incomes; **3) Corporate earnings estimates**: More downgrades are likely; **4) Policy stimuli:** China significantly stepped up policy easing. Monetary policies have turned very accommodative globally. Can EU overcome opposition to a common Euro area bond to counter a deepening recession?; **5) Technicals/sentiment:** Can S&P500 hold above the 2,150 support? Volatility remains high and falling Treasury yields point to investor caution.

Market bottoms are hard to predict, and there remain downside risks from changed consumer behaviour, resulting in a slow recovery. The coming weeks could create opportunities. We prefer Asia ex-Japan and US equities and Asian USD bonds, and maintain gold as a hedge. CNH offers good value.

Global equities and commodities extended declines and US Treasuries and the USD gained as the number of global COVID-19 cases crossed the 1 million mark, led by the US

Benchmark market performance w/w*



Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered
*Week of 26 March 2020 to 02 April 2020

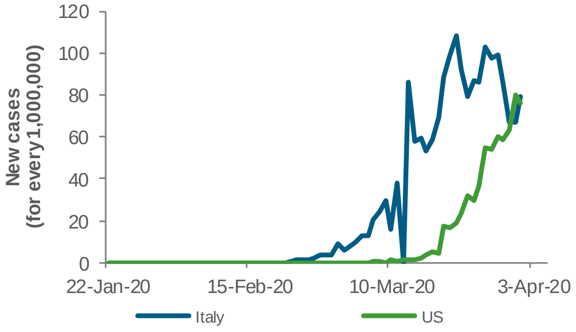
US outbreak may be 1-2 weeks away from a peak

The trajectory of the new COVID-19 infections (see chart on page 2) suggests the global pandemic may be losing momentum. Most countries now fall in the 1-20% bracket in daily growth rate in new cases. However, for markets, how soon the growth rate peaks in the US – now the epicentre of the pandemic – is key. From a purely statistical perspective, the US should follow Asia and Europe's pattern over the past couple of months. The growth in the number of cases in Italy and Spain – countries hardest hit in Europe – appears to have peaked over the past week (Italy) or is close to peaking (Spain). However, there is a risk of a second wave of infections, as we are seeing in parts of Asia.

The chart on the right suggests the US could be two weeks behind Italy in terms of the surge in cases. This implies the US outbreak may be 1-2 weeks away from peaking, assuming the US will follow similarly strict containment measures, as now seems to be the case.

US appears around two weeks behind Italy in terms of the surge in COVID-19 infections

New COVID-19 cases per million people in the US and Italy



Source: Johns Hopkins University; Standard Chartered

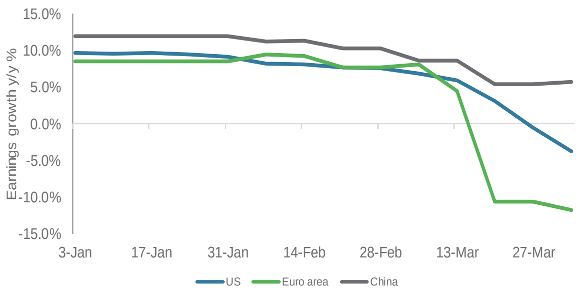
Stimulus likely to ease economic and earnings shock

An OECD study showed that each month of economic lockdown is likely to shave 2ppt from an economy's annual growth rate. The US jobless rate is likely to soar past 2008's high of 10%, hurting near-term consumption. Also, any sustained rebound in oil prices, while easing pressure on the energy sector, would hurt disposable incomes. The good news is the US' latest USD 2trn fiscal stimulus, equalling 10% of GDP, should partly offset this. Euro area's fiscal stimulus, which could add up to only 4% of GDP under the proposed policies, needs to be stepped up though, perhaps with an agreement to issue a common Euro area bond to stall a deepening recession. Monetary policy has turned extremely accommodative worldwide, helping lower borrowing costs for companies and consumers. President Trump's decision to suspend tariffs on some imports from China could further ease costs for companies.

Signpost for investors include the length of lockdowns and the impact on corporate earnings. While earnings estimates have been downgraded in recent weeks (consensus expects a 3.7% drop in 2020 earnings for S&P500 companies), we would be more comfortable adding to equity positions once markets start to become more realistic on the likely earnings contraction in 2020. We expect earnings to contract c. 10% this year, with some estimates forecasting a contraction as large as 30%.

Consensus earnings estimates have been downgraded in recent weeks across the US and Euro area, but we expect further declines in the coming weeks

YTD trend in consensus earnings estimates for S&P500 index, MSCI Euro area index and MSCI China index



Source: Refinitiv, FactSet, Standard Chartered

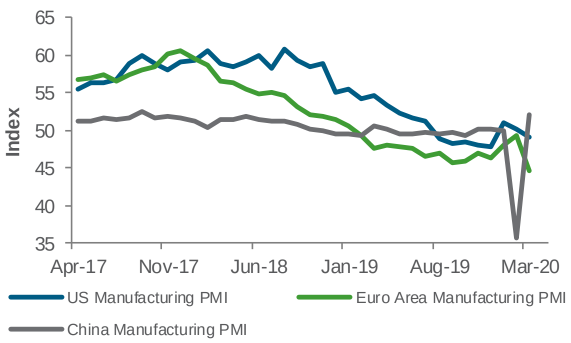
China steps up stimulus

China's cabinet has recently given a clear direction for various state authorities to step up stimulus measures. Following this, the PBoC unexpectedly cut the 7-day reverse repo rate by 20bps to 2.2% and injected CNY 50bn of liquidity into the system. The move is likely to lead to a cut in the prime lending rate in Q2 20, further lowering costs for companies and consumers. We do not expect China's banking profit margins to be impacted as the PBoC is likely to follow suit with lower reserve bank requirements (which should enable them to boost lending volumes) and cut the cost of medium-term funding. The government also proposed to increase the local government bond issuance quota, which is likely to help accelerate infrastructure investment.

Until now, China's stimulus has been the missing link among the spate of fiscal and monetary stimulus unveiled by major governments worldwide. The accelerated stimuli over the coming weeks supports our expectation that China's economy likely bottomed in March. This week's business confidence data (PMI) and the continued recovery in real-time activity indicators (transportation, power generation and migration of workers back to cities) confirm this view.

China's manufacturing sector activity appears to have bottomed, while that in the US and Europe are starting to slump

Manufacturing sector PMIs for the US, Euro area and China



Source: Bloomberg, Standard Chartered

What does this mean for investors?

Equities

Are cuts to bank dividends the start of a trend? As the COVID-19 crisis continues, dividends have come under severe pressure from regulators, as well as companies themselves choosing to conserve cash. The ECB has asked Euro area banks to stop dividend payments, at least until October 2020, and temporarily eased regulatory burdens. Governments in France and Germany are also insisting on dividend suspensions from companies that receive state aid. US companies that receive federal assistance will also be restricted from paying dividends. Major US banks have already halted buybacks, and companies that can afford to return cash to shareholders are reconsidering.

While US equities are preferred, the pace of recovery in 2H 2020 will be an important signal for investors on the extent to which the fiscal and monetary policy responses can contribute towards a recovery in revenues and eventually profits.

Bonds

Have we seen the worst for US corporate bonds? Both US Investment Grade (IG) and High Yield (HY) bonds rallied over the past week, helped by improved equity market sentiment and a reduction in forced selling. The worst for US IG corporate bonds is likely behind us as the Fed's corporate bond buying programme provides a backstop to the market and puts a cap on how high yield premiums can rise.

However, we believe the rally in HY bonds may be premature as oil prices are likely to remain at depressed levels, despite this week's rebound, and could lead to a sharp rise in energy sector default rates. Balancing the attractive yield on offer, we view DM HY bonds as a core holding. Asia USD bonds and EM USD bonds are preferred, in our view, given the former's relative stability and the latter's attractive valuation.

FX

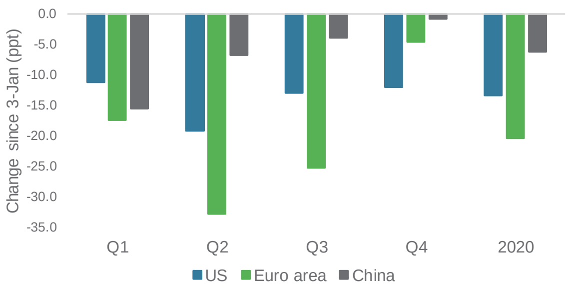
Is it time to add CNH? As China takes steps towards "normalcy", we expect its economic repair to become more visible as Europe and the US confront the worst of the pandemic in coming weeks. USD/CNH has traded between 6.85 and 7.20 since mid-2019, well before COVID-19 struck. It is now trading towards the higher end of the range, and we expect it to hold the 7.15-7.20 resistance and gradually return towards the lower range support. Chinese government bonds and equities continue to look attractive in relative terms, in our view, and with the Fed providing significant USD liquidity and China holding large USD reserves, we see the authorities continuing to favour currency stability. We have turned bearish on USD/CNH, with a target at 6.8700.

Oil

Can oil sustain this week's rebound? Crude oil prices rallied almost 25% after President Trump said Russia and Saudi Arabia had agreed on production cuts, estimated to be about 10mbd. Oil has since retraced some of its gains after Russia pushed back on Trump's claims. While Saudi Arabia has called for another meeting of OPEC+, for oil prices to rally further, there needs to be significant progress on production cuts. A sustained recovery in crude oil prices would reduce deflationary risks and support EM USD government bonds and US HY corporate bonds. However, it would hurt disposable incomes across major economies as they recover from the virus outbreak, hurting consumption.

The Euro area has seen the biggest earnings downgrades so far; we expect further US downgrades

YTD change in consensus earnings estimates for 2020



Source: Bloomberg, Standard Chartered

Equity market technical in Asia have turned positive

Technical levels of key markets as of 02 April 2020

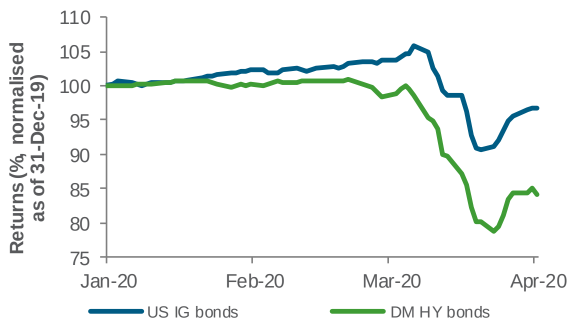
Index	Spot	1st support	1st resistance	Short-term trend
S&P500	2,527	2,350	2,640	↘
STOXX 50	2,688	2,540	2,907	↘
FTSE 100	5,480	4,900	5,900	↓
Nikkei 225	17,819	16,400	19,550	↓
Shanghai Comp	2,781	2,650	2,880	↓
Hang Seng	23,280	22,400	24,000	→
MSCI Asia ex-Japan	547	528	589	↗
MSCI EM	827	804	865	↗
Brent (ICE)	30	20	31	↓
Gold	1,612	1,545	1,645	↑
UST 10Y Yield	0.61	0.30	1.27	↓

Source: Trading Central, Standard Chartered

Note: Arrows represent short-term trend opinions

US IG bonds have been boosted lately by the Fed's decision to buy corporate bonds, but HY bonds remain depressed amid concern about rising defaults

Relative YTD performance of US IG and DM HY bonds



Source: FactSet, Standard Chartered

We turned bearish on USD/CNH, with a target of 6.87

USD/CNH

Source: Bloomberg, Standard Chartered

Top client questions

Are the technical indicators pointing to a bottom in risk assets?

We consider price action and charts in three critical markets – US stocks, crude oil and US Treasuries – to assess whether risk sentiment is bottoming.

S&P500: 2,150-2,192 is key support to watch

The S&P 500 index's gap lower on Wednesday and a break below immediate intraday chart support at 2520 indicate that the 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 feeble nature of the rebound coupled with the failure to sustain gains this week raises the risk of a fall toward the March low of 2192.

However, the 2150-2192 support area is strong (it includes the 78.6% retracement of the 2015-2020 rise) and would be tough to break decisively, especially given US sentiment and breadth indicators may already be signaling excessive pessimism. Moreover, the continued decline in the US stock market volatility index, VIX, is a sign of calm returning to markets for now, raising the possibility of some recovery in the S&P 500 index.

While a rebound would not imply that the broader correction is over, it would at least open the door for a meaningful pause in the slide. To what extent the index rebounds and how fast it rises, would determine how lasting the rebound turns out to be. For now, though, the focus is on the 2150-2192 support area. Subsequent support is at 2025 (the 50% retracement of the 2009-2020 rise).

Crude oil: Tentative signs of a floor

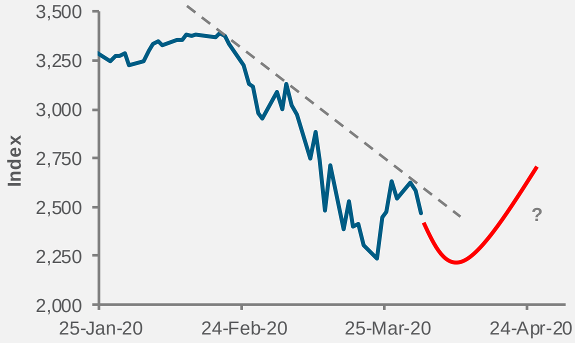
Crude oil appears to have found major support on a slightly-downward sloping trendline from the 2009 low. There are tentative signs on intraday charts that the downward pressure is abating. Crude oil's break above key resistance at the Tuesday's high of 21.89 has opened the way toward the March 25 high of 25.24. A decisive break above would confirm a temporary floor in oil, opening the way initially toward resistance on the 30-day moving average (now at about 31.25). However, for the medium-term downward pressure to fade, crude oil needs to close the bearish March 6-9 gap. The upper edge of the gap is the March 6 low of 41.05. On the downside, the next support is at the 2001 low of 16.70.

US 10-year Treasury yield: In search for a bottom

The US Treasury 10-year yield's slide looks stretched, but it is too soon to conclude that the yield is ripe for a rebound. For one, the lower-highs-lower-lows formation or downtrend since mid-March remains intact. Secondly, momentum on intraday charts is lacking – for a noticeable rebound to unfold on longer timeframe charts, momentum on intraday charts needs to pick up. Besides an uptick in momentum, this week's high of 0.72%-0.74% is crucial resistance. The yield needs to clear this resistance for the short-term downward pressure to ease. A failure to do so would risk a retest of the psychological 0.5%, followed by a test of the March low of 0.32%.

S&P 500: 2150-2192 is key support to watch

S&P 500 Index, daily chart



Source: Bloomberg; Standard Chartered

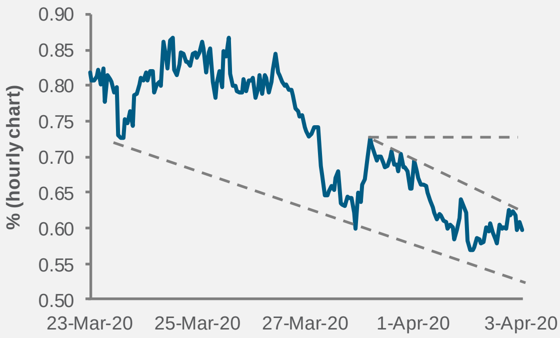
Crude Oil: Tentative signs of a floor

Crude Oil, continuous contract futures, 60-min chart with 14-hour Relative Strength Index

Source: Bloomberg; Standard Chartered

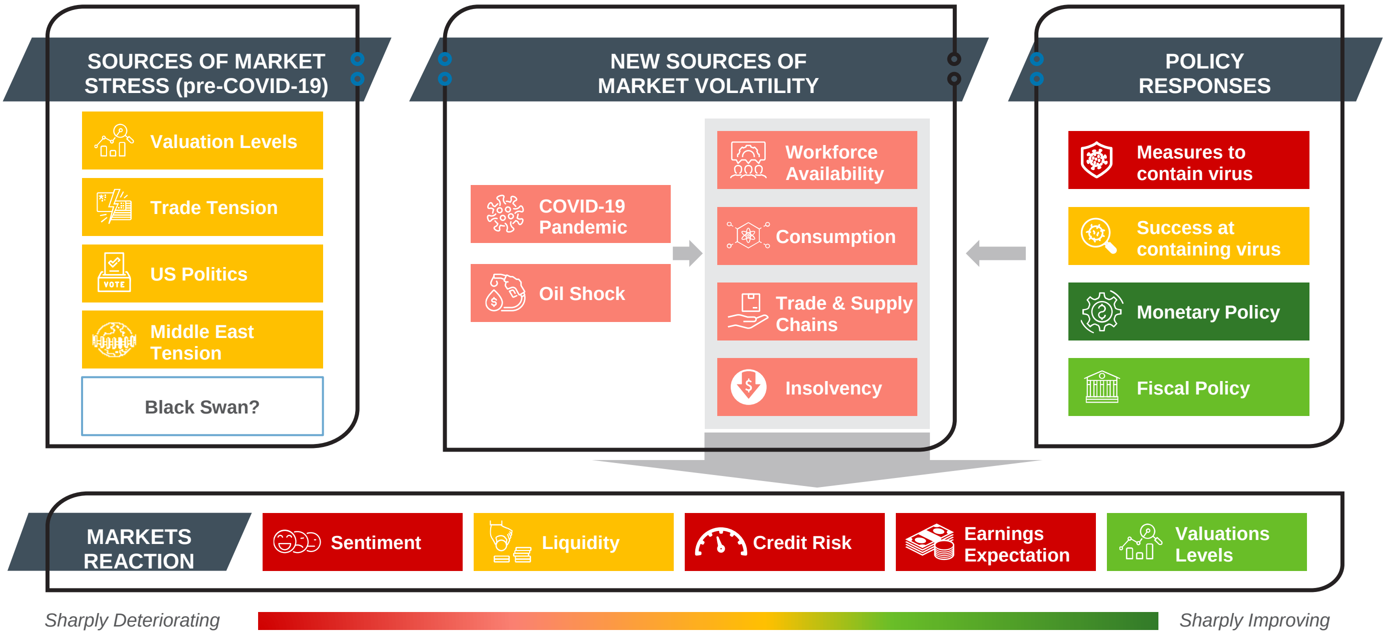
US 10-year Treasury yield: In search for a bottom

US 10-year Treasury yield, 60-min chart

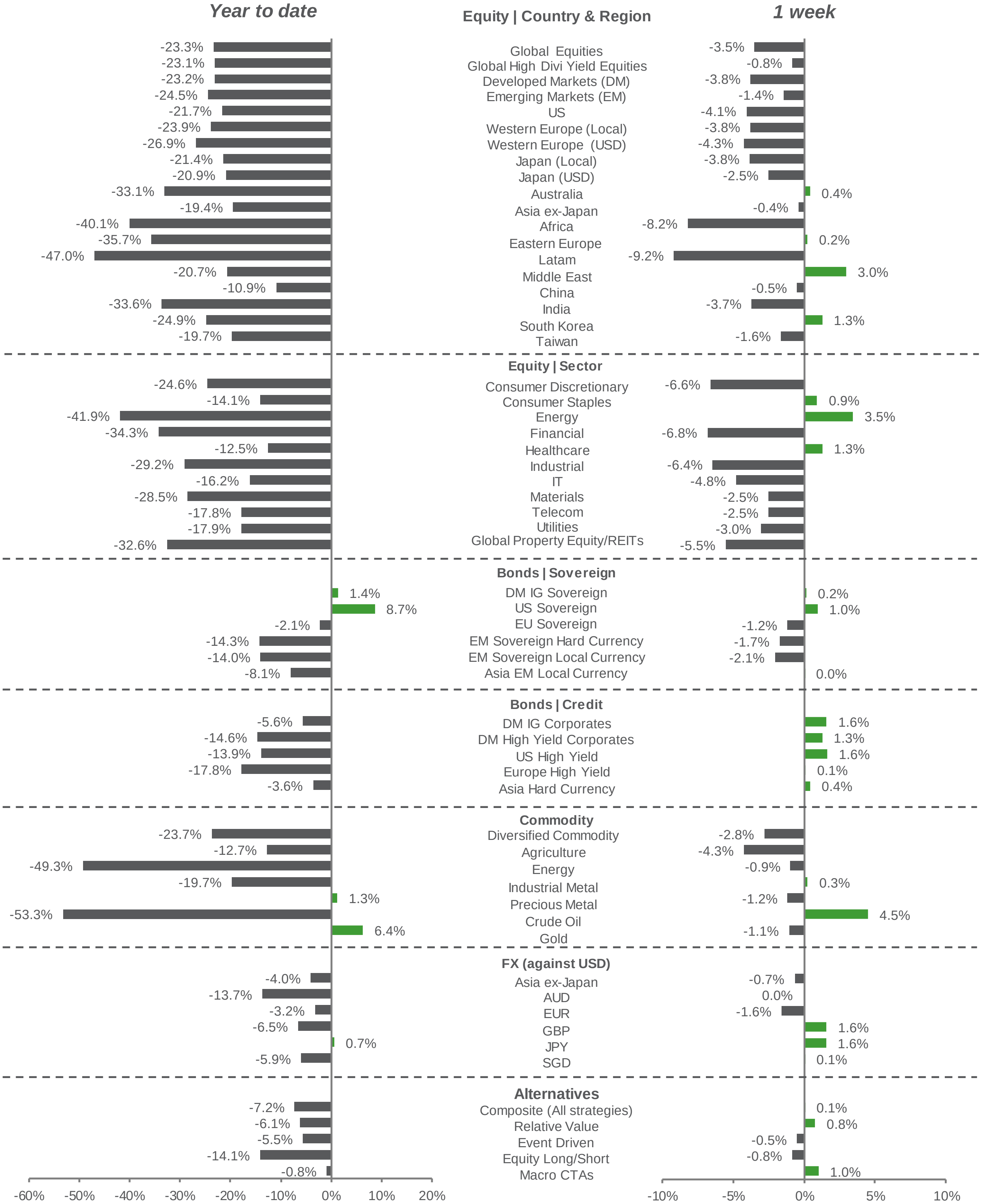


Source: Bloomberg; Standard Chartered

What we are watching: Valuations of several risk assets have turned attractive. However, the extent and length of lockdown measures and the success at containing the virus will be critical for investor sentiment in the coming weeks as they will determine the extent of economic growth and corporate earnings downgrades. Monetary and fiscal policy have turned supportive over the past month, which should support liquidity and prevent a prolonged downturn.



Market performance summary*



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*Performance in USD terms unless otherwise stated, 2019 performance from 31 December 2019 to 02 April 2020, 1 week period: 26 March 2020 to 02 April 2020

Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	EC	Sentix Investor Confidence	6-Apr-2020	Apr	–	-17.1
TUE	CH	Foreign Reserves	7-Apr-2020	Mar	–	$3106.72b
	GE	Industrial Production WDA y/y	7-Apr-2020	Feb	–	-1.3%
WED	US	Consumer Credit	8-Apr-2020	Feb	$15.000b	$12.021b
	JN	BoP Current Account Adjusted	8-Apr-2020	Feb	–	¥1626.8b
	JN	Core Machine Orders y/y	8-Apr-2020	Feb	–	-0.3%
THUR	SK	BoK 7-Day Repo Rate	9-Apr-2020	9-Apr	–	0.8%
	GE	Exports SA MoM	9-Apr-2020	Feb	–	0.1%
	UK	Industrial Production y/y	9-Apr-2020	Feb	–	-2.9%
	US	PPI Ex Food and Energy y/y	9-Apr-2020	Mar	–	1.4%
	US	U. of Mich. Sentiment	9-Apr-2020	Apr P	82	89.1
FRI/SAT	CH	Money Supply M2 y/y	10-Apr-2020	Mar	–	8.8%
	CH	PPI y/y	10-Apr-2020	Mar	–	-0.4%
	CH	CPI y/y	10-Apr-2020	Mar	–	5.2%
	US	CPI Ex Food and Energy y/y	10-Apr-2020	Mar	–	2.4%

	Event	This Week	Date	Period	Actual	Prior
MON	EC	Economic Confidence	30-Mar-2020	Mar	94.5	103.4
	GE	CPI EU Harmonized y/y	30-Mar-2020	Mar P	1.3%	1.7%
TUE	JN	Industrial Production y/y	31-Mar-2020	Feb P	-4.7%	-2.3%
	CH	Manufacturing PMI	31-Mar-2020	Mar	52.0	35.7
	CH	Non-manufacturing PMI	31-Mar-2020	Mar	52.3	29.6
	EC	CPI Core y/y	31-Mar-2020	Mar P	1.0%	1.2%
	US	Conf. Board Consumer Confidence	31-Mar-2020	Mar	120.0	130.7
WED	SK	Markit South Korea PMI Mfg	1-Apr-2020	Mar	44.2	48.7
	EC	Unemployment Rate	1-Apr-2020	Feb	7.3%	7.4%
	US	ISM Manufacturing	1-Apr-2020	Mar	49.1	50.1
THUR	EC	PPI y/y	2-Apr-2020	Feb	-1.3%	-0.5%
	US	Initial Jobless Claims	2-Apr-2020	28-Mar	6648k	3283k
FRI/SAT	EC	Retail Sales y/y	3-Apr-2020	Feb	–	1.7%
	US	Average Hourly Earnings y/y	3-Apr-2020	Mar	–	3.0%
	US	Change in Nonfarm Payrolls	3-Apr-2020	Mar	–	273k
	US	ISM Non-Manufacturing Index	3-Apr-2020	Mar	–	57.3

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue
Previous data are for the preceding period unless otherwise indicated
Data are % change on previous period unless otherwise indicated
P - preliminary data, F - final data, sa - seasonally adjusted
y/y – year-on-year, m/m - month-on-month

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