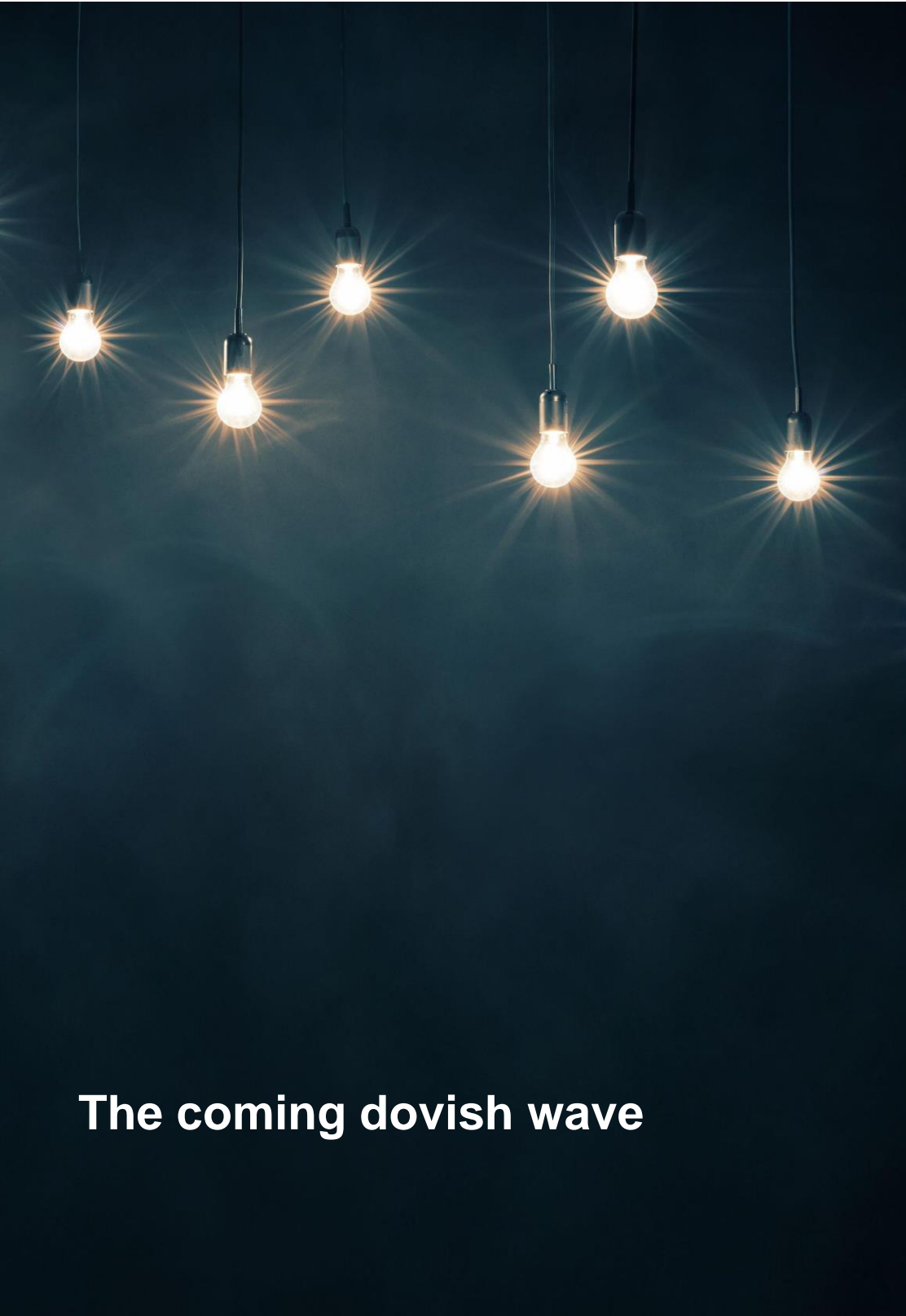


# Weekly Market View

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## The coming dovish wave

**The Fed's emergency rate cut has set the stage for a worldwide policy stimulus. This should help mitigate the impact from the spread of COVID-19 in Europe and the US**

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**Equities:** After a virus-induced slump in Q1, we expect earnings to recover by H2. This leaves us positive on equities, especially in the US and Asia ex-Japan

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**Bonds:** We see the gains in US Treasury yields as an opportunity to rebalance to EM USD and Asia USD bonds

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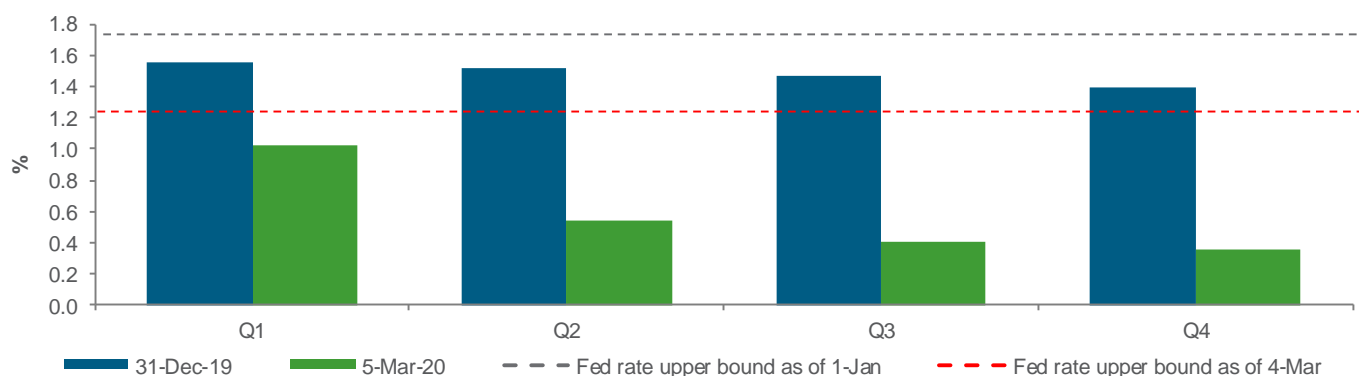
**FX:** We see further USD decline vs. EUR, JPY, AUD

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## Chart of the week: Markets expect more Fed rate cuts this year

Money market expectations of Fed rates at the end of each quarter of 2020; today (green) vs. expectations at the start of 2020 (blue)



Source: Bloomberg, Standard Chartered

## Editorial

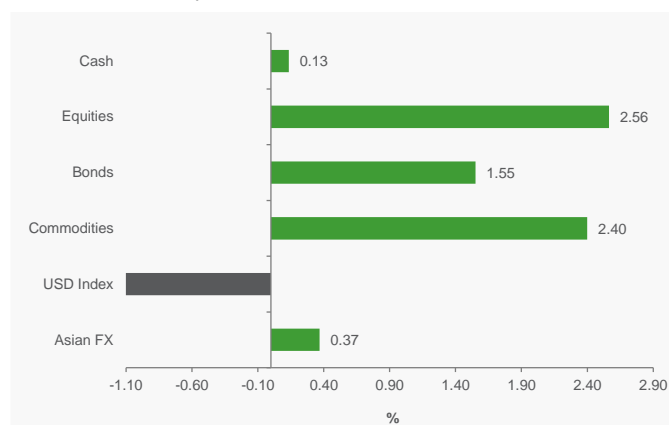
### The coming dovish wave

The market's likely drivers in the coming weeks can be summarised by two surprise events this week: a) The Fed's emergency rate cut, which sets the stage for an increasingly coordinated global policy response to combat the impact of COVID-19, and b) the return of moderate Joe Biden as the front-runner in the US Democrat presidential nomination race. The first reminds us of a similar dovish turn in 2019, when policymakers responded to rising uncertainty caused by US-China trade tensions. Meanwhile, Biden's 'Super Tuesday' win in the Democrat primaries gives his moderate policy agenda a stronger chance of winning the nomination.

This turn of events supports our medium-term constructive view on risk assets. In the near term, we remain on watch for a likely acceleration in the spread of COVID-19 across Europe and the US that could cause more market volatility. However, as China's experience shows, the dust should settle by Q2, turning the focus towards a policy-driven global recovery in H2. Thus, we would view near-term stock market dips as opportunities to add exposure (see page 5 for technical levels). Also, gold should do well in an environment of low bond yields.

**Global equities and commodities partially recovered from the previous week's correction and bonds gained amid expectations of more monetary and fiscal stimulus to counter the economic impact of the global spread of the coronavirus (COVID19)**

Benchmark market performance w/w\*



Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered (Indices used are JP Morgan Cash, MSCI AC World TR, Citi World Big, DJ-UBS Commodity, DXY and ADXY)

\*Week of 27 February 2020 to 05 March 2020

### Fed sets off a dovish wave

The Fed's 50bps rate cut at an unscheduled meeting on 3 March, the first such emergency reduction since 2008, followed a pledge by G7 central bankers and finance ministers to ease policy to mitigate the economic impact of COVID-19. The G7 meeting shows increased coordination among policymakers after equity markets suffered a correction the previous week. Australia and Canada have cut rates this week and we expect the ECB and BoJ to follow on 12 and 19 March. Markets are also pricing in further Fed rate cuts at its scheduled 18 March meeting. Other Asian central banks are also likely to ease policy further, including in China, where the PBoC is likely to cut rates further and ease bank reserve requirements to boost credit to targeted sectors.

While lower rates are likely to ease the interest burden on companies, reduce mortgage rates and lift investor sentiment, they are unlikely to offset the drag on consumer demand in the near-term due to COVID-19. Hence, we also see rising chances of fiscal stimulus through tax cuts and spending to support demand in the UK, Euro area and Japan. China, too, is likely to boost spending on infrastructure after data showed a bigger-than-expected hit to manufacturing and services sector activity.

The concerted efforts by policymakers is a key reason why we remain constructive on equities over the next 6-12 months. Technical charts show the medium-term uptrend for equities remains intact (see page 5).

### Biden's rise as Democrat frontrunner eases US policy risks

US moderate candidate Joe Biden's dramatic turnaround in the race to become the Democrat nominee in the November presidential elections reduces policy risk, in our view. Biden's broad-based wins in the Democrat primaries on 'Super Tuesday', especially in the minority-heavy southern states and in the Midwest, have helped him overtake progressive candidate Bernie Sanders as the Democrat frontrunner. This has become a very close two-way race as all other nominees have withdrawn. Over 60% of Democrat delegates are still to decide and focus now turns to next Tuesday's six contests, where Biden's recent momentum will be tested. A Sanders' candidacy would be disruptive for policy and markets, given his plans to raise income and corporate taxes to pay for free healthcare and college tuitions and other promised giveaways. Biden's moderate policy stance is aligned with former President Obama's, which was supportive of the US equity bull market.

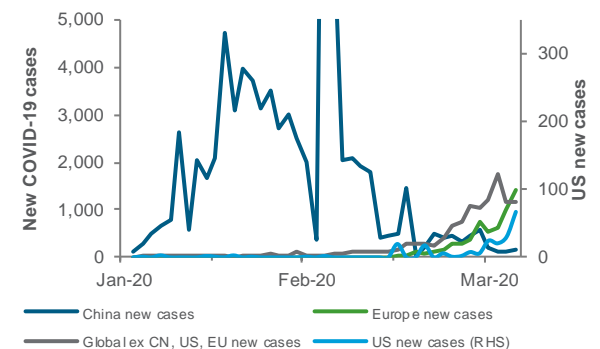
### Will the USD continue to slide?

The Fed rate cut, along with the prospect of further US monetary easing, is likely to keep the USD capped in the coming weeks. Interest rate differentials have narrowed, and additional USD global liquidity should eventually support other economies and currencies, including in Emerging Markets (EMs). The Fed still has more room to cut rates compared with other central banks. Finally, the unwinding of long USD "carry trades" against the EUR and JPY likely has more room to run. The weakening USD could spill over to other currencies where investor positioning remains short, notably in the AUD, and NZD. This supports our tactically bullish view on AUD/USD.

EUR/USD and USD/JPY face important technical levels around 1.1250 and 106.00 respectively. The USD may rebound from recent losses in the coming days, but any correction could provide an opportunity for investors to hedge long USD exposure. The next targets are at 1.1400-50 and 104.50-00. AUD/USD may take more time to rally pending China stimulus, but a solid fiscal and current account position could support a sharp rally towards 0.68-0.69 once resistance around 0.6660 gives way.

### Central banks and governments are likely to follow the Fed in easing policy further in the coming months as COVID-19 spreads to Europe and the US

New daily COVID-19 infections in various parts of the world



Source: The Center for Systems Science and Engineering (CSSE) at Johns Hopkins University; Standard Chartered

### Moderate candidate Joe Biden's chance of winning the Democrat presidential nomination has surged after a strong showing in 'Super Tuesday' Democrat primaries

Probability of winning the Democrat nomination for the US presidential election in November



Source: Predictit, Standard Chartered

### EUR/USD has rebounded amid an unwinding of long USD carry trades; the next resistance is around 1.14

EUR/USD



Source: Bloomberg, Standard Chartered

## What does this mean for investors?

### Equities

**What is the impact of COVID-19 on corporate earnings?** The COVID-19-led supply-demand disruptions have forced US and European companies to cut their Q1 earnings guidance, with the full-year 2020 outlook remaining uncertain. As a result, US Q1 and 2020 full-year earnings expectations have fallen to 2% and 7% growth (from 6% and 10% at the start of the year). Likewise, Euro area Q1 and 2020 earnings expectations have fallen to -3% and 7% (from no growth and 9% at the start of the year).

We note that full-year guidance remains relatively resilient amid expectations that economic activity will rebound by H2 as the impact of COVID-19 fades and policy stimulus takes effect. This leaves us bullish on US equities, which are likely to be supported by share buybacks and strong corporate margins. Euro area equities are a core holding.

**Do you still prefer financial sector equities?** The financial sector has been a big drag on US and Euro area equities performance this year. US financials have been a preferred sector due to strong US consumer and credit demand and expectation of substantial share buybacks. However, the fall in bond yields in a risk-off environment sparked by COVID-19 is putting pressure on bank interest margins and earnings. Buybacks in the US and partial exemptions from negative rates in Europe remain key drivers of our constructive view. In Europe, increasingly positive signals from regulators on merger activity could be a new positive. Nevertheless, we acknowledge that lower bond yields are a threat to bank profitability. The performance of financials should improve once yields climb higher as investors reduce expectations of further rate cuts on an improving outlook for economic growth.

### Bonds

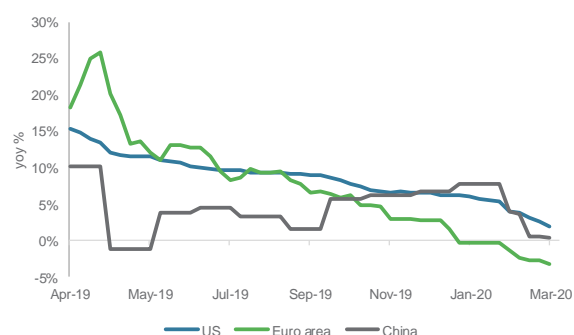
**Can US government bond yields go even lower?** The US 10-year Treasury yield have decisively broken below 1% for the first time ever, following the emergency rate cut by the Fed, leading to the highest two-week total return in 10-year Treasuries since 2011. While yields could fall a bit further near-term as global COVID-19 cases rise, especially since investor positioning is still not at levels that signal a reversal, we believe yields are likely to rise modestly over the next 3-6 months. Thus, we would use the current rally in Developed Market (DM) government bonds to gradually rebalance towards our preferred areas – EM USD government bonds and Asian USD bonds – which offer more attractive yields and have demonstrated resilience during recent market volatility.

### FX

**Can gold sustain its medium-term uptrend?** Gold has been volatile, finding support at the key 1,565 technical level, following the rapid rise to a seven-year high at 1,689. Falling bond yields are a key driver for further gains in the medium term. Corrective declines may continue if equity markets come under further pressure as long gold positioning may prompt investors to take advantage of gold liquidity and accrued profits to raise cash or re-deploy to equities. Key support for gold sits between 1,535 and 1,565 and, as these levels hold, the rally could extend towards the recent high of 1,689 and then next resistance around 1,715. A break below 1,535 would challenge the medium-term uptrend and could trigger a deeper decline towards the 1,450-1,500 region.

Earnings expectations for Q1 have been dragged lower due to the impact of COVID-19, but we expect full-year 2020 earnings to be relatively resilient as economic activity returns to normal by H2

Consensus Q1 earnings growth expectations for the US, Euro area and China



Source: Refinitiv, FactSet, Standard Chartered

### US equity technicals remain positive despite recent drop

Technical levels of key markets as of 05 March 2020

Index	Spot	1st support	1st resistance	Short-term trend
S&P500	3,024	2,960	3,150	↑
STOXX 50	3,364	3,239	3,470	↓
FTSE 100	6,705	6,496	6,872	↓
Nikkei 225	21,329	20,850	22,240	↓
Shanghai Comp	3,072	2,945	3,125	↗
Hang Seng	26,768	26,000	27,250	↓
MSCI Asia ex-Japan	655	638	674	→
MSCI EM	1,038	1,005	1,058	→
Brent (ICE)	50	49	55	↓
Gold	1,674	1,585	1,690	↑
UST 10Y Yield	0.89	0.80	1.28	↓

Source: Trading Central, Standard Chartered

Note: Arrows represent short-term trend opinions

### US 10-year Treasury yields fell to a record low below 1% following the Fed's emergency rate cut and concerns about the economic impact of COVID-19

US 10y Treasury yield and next technical supports



Source: Bloomberg, Standard Chartered

## Top client questions

### Q Is the worst over for stock markets? How do you see the S&P 500 index evolving in the near term?

From a short-term perspective, we believe it is too soon to say whether the correction is over. A retest of last week's low cannot be ruled out before a more sustained rebound takes hold. However, technical charts argue the medium-term trend remains positive, suggesting that a bullish scenario where the index stages a 'V'-shaped rebound (i.e. does not retest last week's low) remains plausible. This leads us to view any dip as a welcome opportunity for investors to add exposure.

The index is holding below immediate resistance at 3,125 (the 50% retracement of the February slide). This is a reasonable retracement, but not necessarily enough to suggest the worst is over. There are two possible scenarios from here:

- The index's rebound this week proves to be short-lived, leading to a move toward the February low. We attach a higher probability of this scenario.
- An alternate scenario is a more bullish scenario, the index recoups its recent losses and stages a 'V'-shaped rebound. In this case, the probability of a retest of the February low would be quite low.

Compared to the S&P 500 index's peak-to-trough decline of around 16% this year, the MSCI Asia ex-Japan index has declined by roughly 11%. The relatively smaller decline is partly a reflection of an oversold market given a correction has been ongoing since 2018 (the index made a cycle high in 2018, compared with the S&P 500 index that made a new record high last month).

However, despite renewed pressure from COVID-19, the Asia ex-Japan index is holding above strong converged support: the 200-week moving average (now at 629; 5% from Thursday's close), roughly coinciding with an uptrend line from 2016. A catalyst (like improved risk appetite) could push the index higher.

### The S&P500 index's medium-term uptrend remains intact, although it could retest the recent lows in the near-term

S&P500 index and our stylised view of its likely path ahead, based on technical analysis charts



Source: Bloomberg, Standard Chartered

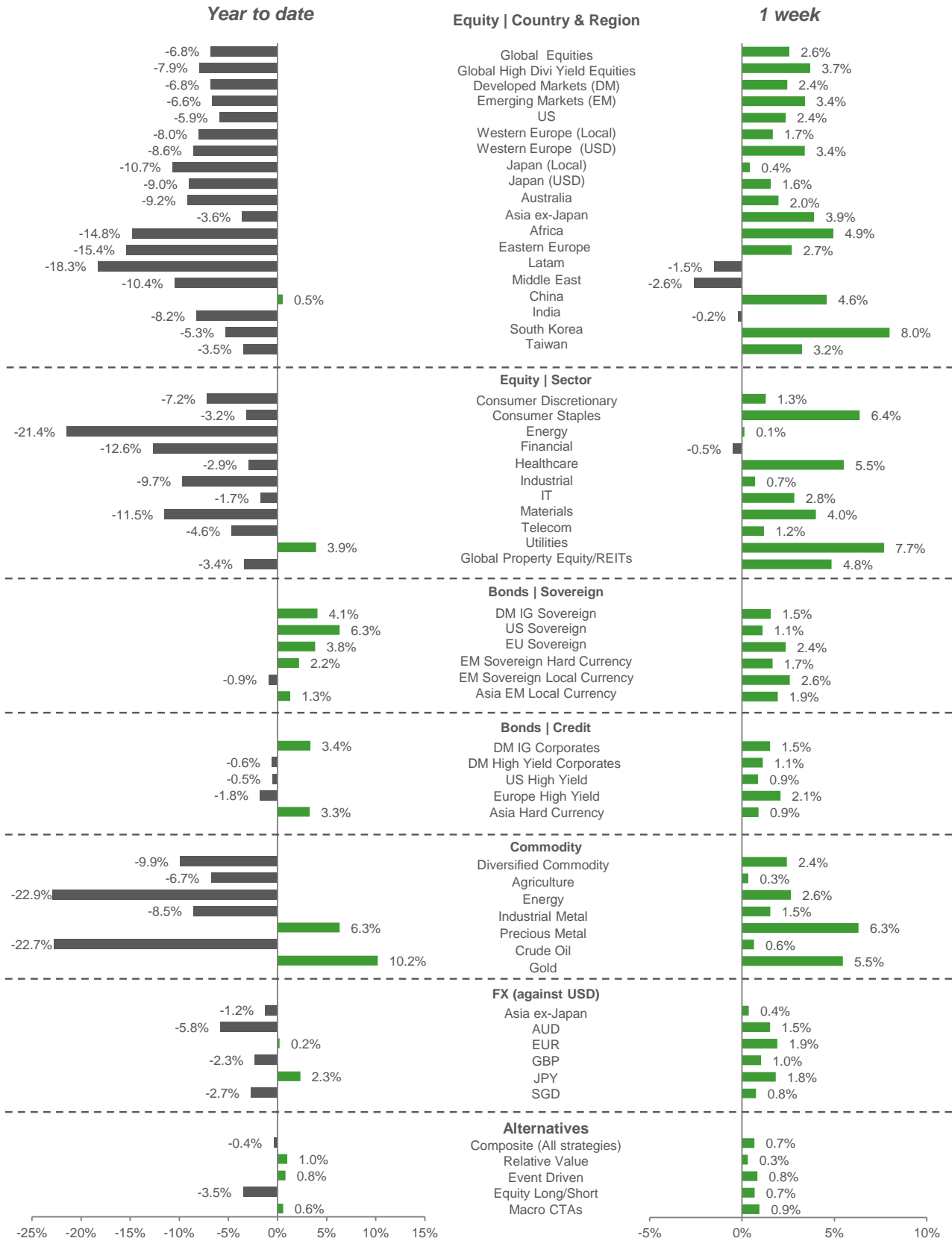
### The Asia ex-Japan equity index has held above its key support, the 200DMA; improved risk appetite could push the index higher from this support level

MSCI Asia ex-Japan index



Source: Bloomberg, Standard Chartered

# 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 05 March 2020, 1 week period: 27 February 2020 to 05 March 2020



## Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	GE	Exports SA m/m	09-Mar-2020	Jan	-	0.2%
	GE	Industrial Production WDA y/y	09-Mar-2020	Jan	-	-6.8%
	EC	Sentix Investor Confidence	09-Mar-2020	Mar	-	5.2
TUE	CH	PPI y/y	10-Mar-2020	Feb	-0.3%	0.1%
	CH	CPI y/y	10-Mar-2020	Feb	5.2%	5.4%
	JN	Machine Tool Orders y/y	10-Mar-2020	Feb P	-	-35.6%
	CH	Money Supply M2 y/y	10-Mar-2020	Feb	8.5%	8.4%
WED	UK	Industrial Production y/y	11-Mar-2020	Jan	-	-1.8%
	US	CPI Ex Food and Energy y/y	11-Mar-2020	Feb	2.3%	2.3%
	US	Real Avg Weekly Earnings y/y	11-Mar-2020	Feb	-	0.0%
THUR	EC	ECB Main Refinancing Rate	12-Mar-2020	12-Mar	-	0.0%
	IN	CPI y/y	12-Mar-2020	Feb	-	7.6%
	IN	Industrial Production y/y	12-Mar-2020	Jan	-	-0.3%
	US	PPI Ex Food and Energy y/y	12-Mar-2020	Feb	1.7%	1.7%
FR/ SAT	US	U. of Mich. Sentiment	13-Mar-2020	Mar P	95.5	101

	Event	This Week	Date	Period	Actual	Prior
MON	US	ISM Manufacturing	02-Mar-2020	Feb	50.1	50.9
	SK	Markit South Korea PMI Mfg	02-Mar-2020	Feb	48.7	49.8
TUE	US	FOMC Rate Decision (Upper Bound)	03-Mar-2020	3-Mar	0.0125	0.0175
	UK	Markit/CIPS UK Construction PMI	03-Mar-2020	Feb	52.6	48.4
	AU	RBA Cash Rate Target	03-Mar-2020	3-Mar	0.005	0.0075
	EC	CPI Core y/y	03-Mar-2020	Feb P	0.012	0.011
	EC	Unemployment Rate	03-Mar-2020	Jan	0.074	0.074
WED	CH	Caixin China PMI Composite	04-Mar-2020	Feb	27.5	51.9
	IN	Markit India PMI Composite	04-Mar-2020	Feb	57.6	56.3
	US	ISM Non-Manufacturing Index	04-Mar-2020	Feb	57.3	55.5
THUR						
FR/SAT	GE	Factory Orders WDA y/y	06-Mar-2020	Jan	-	-0.087
	US	Trade Balance	06-Mar-2020	Jan	-	-\$48.9b
	US	Change in Nonfarm Payrolls	06-Mar-2020	Feb	-	225k
	US	Average Hourly Earnings y/y	06-Mar-2020	Feb	-	0.031
	US	Unemployment Rate	06-Mar-2020	Feb	-	0.036

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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