Market Watch

Large fiscal stimulus awaited

Summary

- **The S&P 500 fell 4.3% and corporate bond yields rose, despite gains in Asian and European equities earlier.**
- **The US and Germany are working on fiscal stimulus measures worth about 10% of their GDP.**
- **What to watch: Liquidity conditions, COVID-19 infections, fiscal/monetary policy; China real-time data; retail investor activity in markets.**

Background

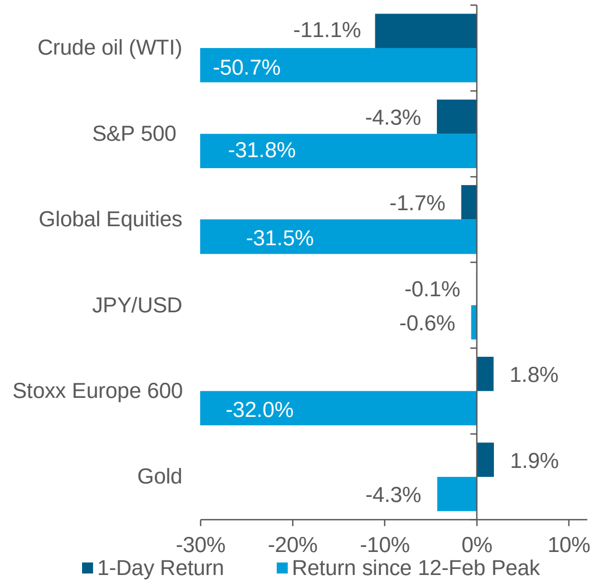
- The S&P500 fell by 4.3% on Friday, despite a more upbeat mood in Asia (MSCI Asia up 2.6%) and Europe (Stoxx Europe 600 up 1.8%). The 10-year US Treasury yield fell to 0.85%.
- Yields on both investment grade and high yield bonds rose as major rating agencies projected a sharp rise in US high yield bond defaults under their worst-case scenarios. Oil gave back previous day's gains despite reports OPEC held talks with a Texas state energy regulator and US shale oil producers.
- President Trump's economic advisor Kudlow said the size of a fiscal stimulus package being negotiated in Congress will likely total more than USD 2tn, approximately 10% of US GDP. Having said that, recent reports highlighting differences between Republicans and Democrats on proposal specifics suggest more time may be needed to agree on the package.
- Meanwhile, Germany's finance minister will likely present additional measures also worth approximately 10% of GDP through a combination of a supplementary budget, a new stabilisation fund and loans routed via a state lender.

What does this mean for investors?

- The US and German fiscal proposals are significant in their size (US measures would dwarf those taken during the 2008 crisis). They also signal policy willingness to do 'whatever it takes', particularly in Germany, where proposals would mark a shift from earlier reluctance to deviate from balanced budgets.
- The proposals, if passed, could mark a significant shift in the policy response to the current crisis. As the graphic on the next page illustrates, two out of four responses would turn green if fiscal proposals are passed. This, together with market technicals and the pace of COVID-19 infections, will then be key to the near-term market's direction, in our assessment.
- **Technical watch**: S&P500 sentiment and breadth indicators are reflecting extreme pessimism, in our view. The index closed below key support (2347), though, given high volatility, we would await another weekly close before concluding if the longer-term uptrend has changed. For now, the path of least resistance remains to the downside unless the index rises above the 10-day moving average (currently 2555).

Equities were mixed on Friday; US fell, Europe rose

Selected market performance on 20 Mar and since 12 Feb*



Source: Bloomberg, Standard Chartered

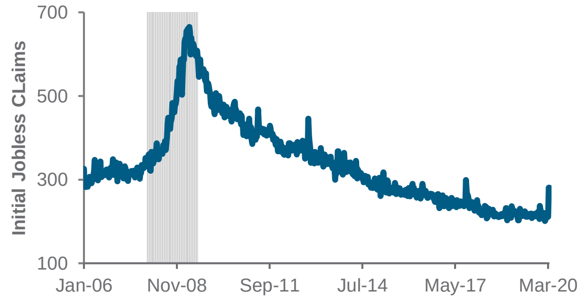
Table of technical support levels for selected assets

Index	Previous close	1st support	% from spot	2nd support	% from spot
S&P500	2,304.92	2,150.00	-6.7%	2,025.00	-12.1%
Stoxx 600	293.04	263.00	-10.3%	233.00	-20.5%
MSCI Asia ex.Jp	530.88	474.00	-10.7%	435.00	-18.1%
UST-10Yr	0.85	0.63	-0.22bps	0.50	-0.35bps
Gold	1,497.64	1,445.00	-3.5%	1,400.00	-6.5%

Source: Bloomberg, Standard Chartered

US new jobless claims surged by 33% last week

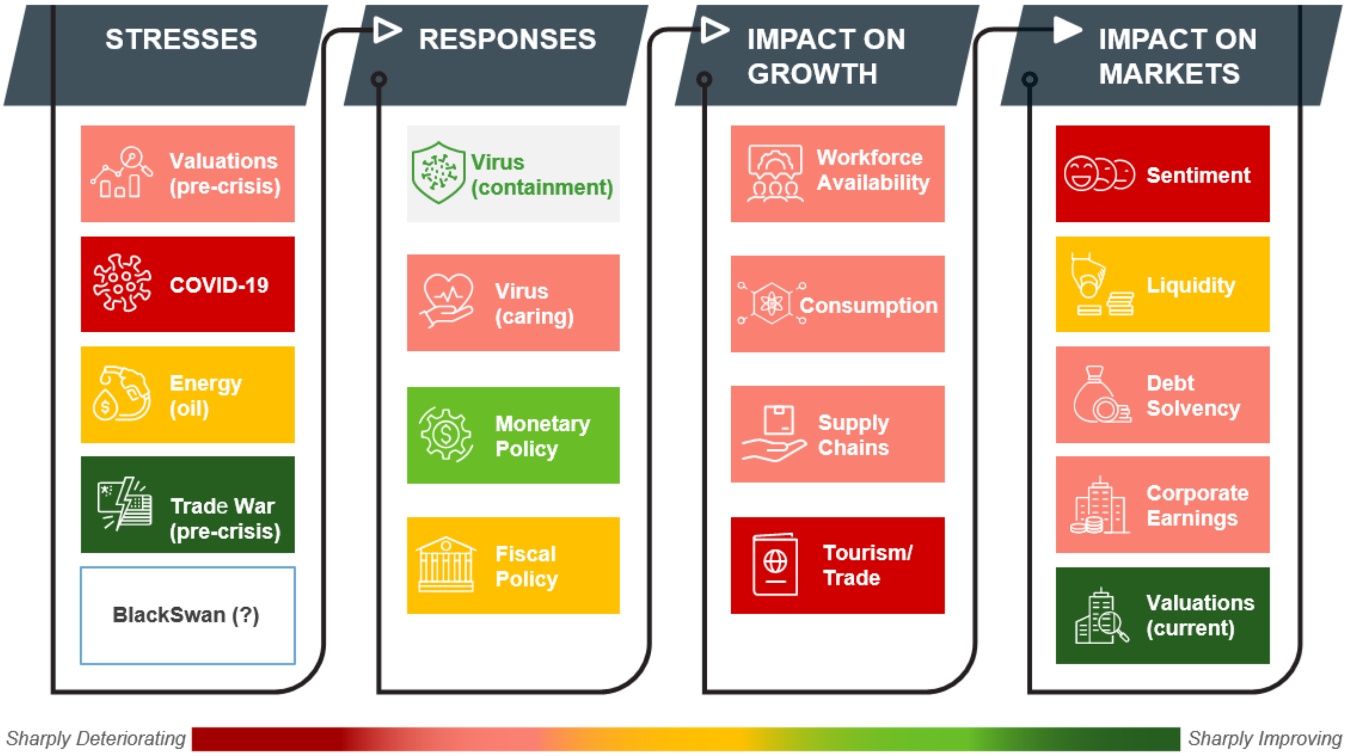
US weekly jobless claims in blue, US recession in grey



Source: Bloomberg, Standard Chartered

What are markets trying to price this time?

- Markets are trying to balance rising risks to growth due to economic dislocation caused by COVID-19 against an accelerating pace of policymaker action, in our assessment.
- On the fiscal policy side, previous red lines are being crossed, including the US government's willingness to take equity stakes in companies and, in Europe, increasing willingness to move away from a decade of austerity and fixation with balanced budgets.
- On the monetary side, all major central banks have restarted or ramped up bond purchases after cutting rates to 0% (or close to 0%) and the Bank of England crossed its 0.25% lower bound less than a week into the term of its new governor. Meanwhile, the Fed's announcement of additional swap lines with many other central banks may help alleviate some of the US dollar funding squeeze created by the sell-off in markets globally and the insatiable appetite for dollars amongst investors.



Source: Bloomberg, Standard Chartered

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