

Market Watch

A return of geopolitical risk

Summary

- US and Japan equities fell sharply on Friday, though many other major markets were closed for the 1 May holiday.
- Renewed geopolitical risk, earnings surprises, poor economic data and a likely Japan emergency extension were likely key drivers.
- **What we are keeping an eye out for:** Speed of economies re-opening, US-China geopolitical risk, equity market technicals.

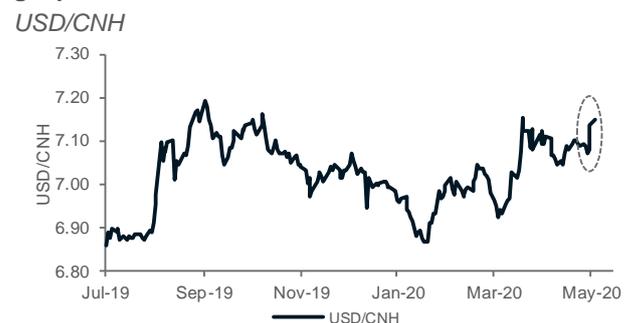
Background

- On Friday, the S&P 500 fell 2.8%, the Nasdaq fell 3.2% and Japan's Nikkei fell 2.8%. Treasury yields and the CNY fell while the JPY gained. Many other major equity markets were closed on Friday for the 1 May holiday.
- US President Trump said he has seen strong evidence that the COVID-19 virus originated from a laboratory in Wuhan, China. Separately, he raised the prospect of new tariffs on China even as the US considered restricting a US retirement fund from investing in Chinese equities, placed new export controls on 'dual use technologies' and restricted the importing of foreign parts for the US electricity grid. Investors are worried about the possibility of a new flare-up in US-China geopolitical risks.
- The US April ISM manufacturing index fell further to an 11-year low even as the Dallas Fed President called for more fiscal stimulus. On the earnings front, a major tech firm said higher employee hiring and protection costs would hurt profits while a major European energy firm joined many other UK firms in cutting dividends. Japan's PM Abe said the country's state of emergency was likely to be extended.
- On the positive side, after market hours, the US Food and Drug Administration granted an emergency authorisation for broader use of a key drug that could help treat COVID-19 patients.

What does this mean for investors?

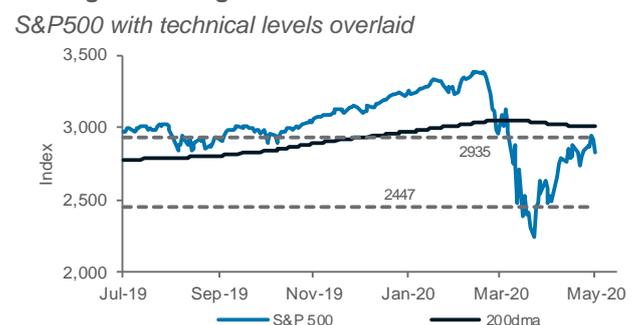
- As we noted in our most recent *Global Market Outlook – Beyond the Lockdowns* publication, risky assets could face near-term downside given the risk of disappointment from economic re-openings and technicals. Rising geopolitical tensions would add to these risks.
- Having said that, trying to time a specific bottom is unlikely to be an optimal strategy as markets attempt to balance bad news against significant policy support and low bond yields. This means a measured strategy, like 'prudent averaging-in', may be a better approach to managing market exposure today. See the *Global Market Outlook* for more detail.
- **Technical watch:** We believe the S&P 500 is settling in a range. A fall below the April 21 low of 2727 would confirm key resistance at 2935 (61.8% retracement) marks the top of the range, while the April 1 low of 2447 marks the likely bottom.

Renminbi weakness one indicator of US-China geopolitical risk



Source: Bloomberg, Standard Chartered

Technical indicators argue the S&P500 could be settling into a range



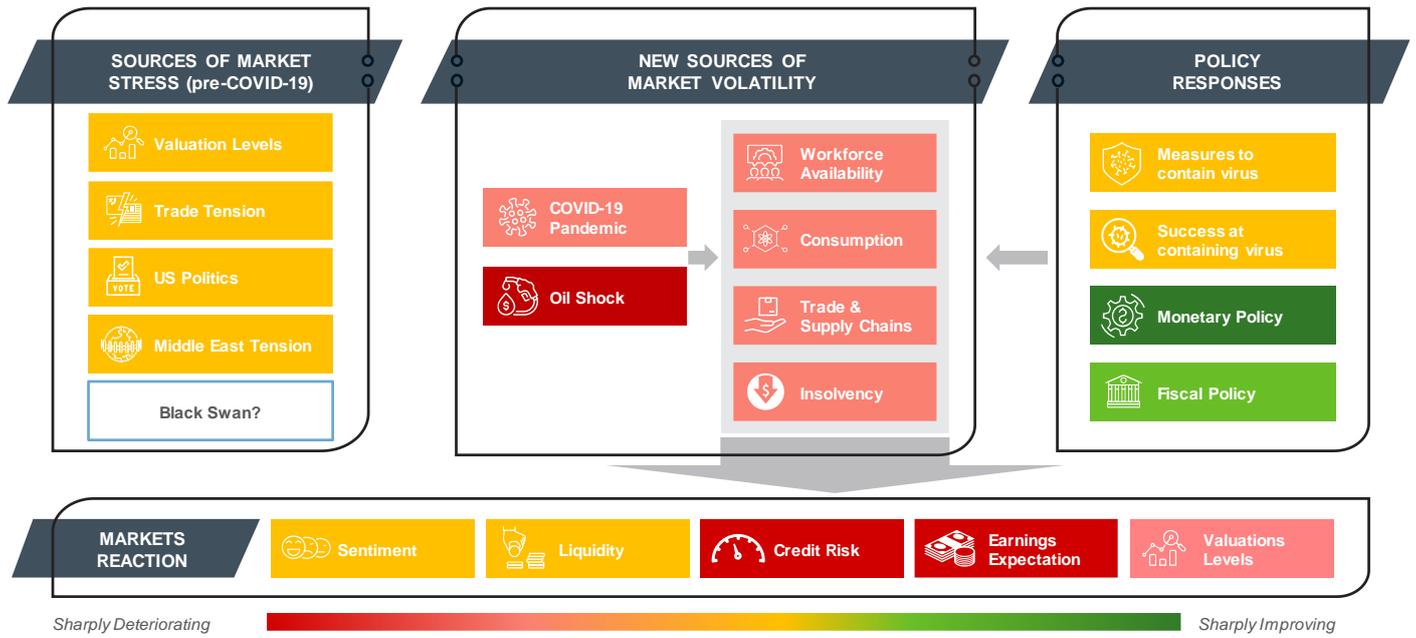
Source: Bloomberg, Standard Chartered

Key technical levels

	Prev. Close	Support		Resistance	
SPX	2,830.71	2,727.00	-3.7%	3,005.00	6.2%
Stoxx 600	337.39	321.00	-4.9%	367.00	8.8%
MSCI AXJ	606.17	560.00	-7.6%	635.00	4.8%
UST10yr	0.64	0.54	-0.10	0.79	0.15
Gold	1,699.12	1,642.00	-3.4%	1,746.00	2.8%

Source: Bloomberg, Standard Chartered

Things we are watching and our assessment



Source: Standard Chartered

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