Weekly Market Summary

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What's the Exact Coronavirus Fatality Rate?? Do Financial Markets really Care?!

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Latest Update on Coronavirus: Confirmed cases last at 100,162 (versus 83,877 last Friday), 3,406 deaths (versus 2,867). The COVID-19 is now affecting 90 countries and territories around the world. Microsoft Corp. disclosed the first known cases of coronavirus infection among its employees yesterday, joining fellow tech giants Amazon Inc. and Facebook Inc. in revealing the disease in their ranks. More companies globally are encouraging their staff to work from home, whilst private and public schools temporary close in different parts of the world. The first coronavirus related death was registered in both the UK and Switzerland, while fatalities in the US now total 14.

These are surely strange times to be living: Chaotic, certainly.. Surreal, most likely! In the grip of a new terrifying infection spreading rapidly around the planet with no natural immunity, it surely can feel like the sky is falling. And whilst a larger share of the world's population will experience some of the anxiety/pain associated with the Covid-19 coronavirus over the coming weeks, the likely end-point of this outbreak – expected sometimes in Q2 or Q3 2020 – will see it settle down as an endemic disease, one of many respiratory viruses like influenza and common cold that travel around the world year after year. However, the great unknown is what happens along the way; So far, attempts to contain the infection in existing hot spots in Asia, Europe and the Middle East appear to be failing. As to the percentage of people that succumb to their infection, the World health Organization (WHO) now reports that the estimated death rate is 3.4%, though president Trump remains sceptical and reckons the fatality rate is much lower and "*way under*" 1.0% (as lower severity cases go unreported with many people recovering quickly). Regardless of which number proves to be more accurate, one can only hope that the most severe period of initial infection will soon be fading, as respiratory diseases usually flourish in the cold season and taper off as the weather warms up.

Still, there should be no cause for complacency! With trillions of dollars wiped off global stocks in the recent market sell-off, financial conditions sharply tightening and credit markets on the verge of full freeze - while already expensive government bonds continue witnessing so much demand that record-low yields keep printing daily - expectations that the market turmoil or economic impact of the coronavirus will force the Federal Reserve to cut interest rates prior to the March 18th FOMC meeting, in what would be the first emergency cut since 2008, were running high the previous week. The US president too was growing impatient. "*If you look at the Fed, it has a massive impact, lots of it is psychological and lots of it is fact*," Trump said at a White House press conference last weekend. "*It is about time the Federal Reserve acted like a leader and lowered interest rates*."

Fed officials Would not Disappoint! But Will it Really Support Financial Markets?

On Tuesday 3rd of March, the Group of Seven Finance chiefs - under pressure from investors to match their pledges to shield the world economy from the coronavirus - held a rare conference call and confirmed they would deploy all policy tools at hand, including "*fiscal measures where appropriate*". Shortly afterwards, the US Federal Reserve surprisingly lowered its benchmark interest rate by 50 bps to a new range of 1.00%-1.25% (from 1.5%-1.75%), saying that while the US economy's fundamentals "*remain strong*", the spread of the coronavirus "*poses evolving risks to economic activity*." The action failed to ease stock market concerns, though it sparked a sharp drop in short- and long-term US rates.

While in normal times a Fed cut would have been the right response, it does not go far enough in the current environment. "*Does a 50 bps cut change things? That is a tough one to answer*," said Subadra Rajappa, head of US rates strategy at Societe Generale. "*Fed cuts tend to be less effective in situations like this when there is a supply and demand shock*." "*While I believe this rate cut is a necessary act, I doubt it is sufficient to bail out the market. Now is the moment of truth*," Scott Minerd, who oversees about $215 billion for Guggenheim Investments, noted in a recent email to clients. "*We will now see how potent monetary policy is at addressing this crisis*." To be clear, the coronavirus is first and foremost a public-health threat. The full resources of governments should be focused on that, though it is also wrong to argue that efforts to address the economic effects of the virus are simply a distraction. After all, if there is a pandemic, the human toll could be considerable, but that does not mean that the economic toll can be ignored. The US - and the rest of the world – would be facing a mild or severe recession, and efforts to mitigate it would help reduce the number of families faced with the double crisis of illness and unemployment.

When everything is fine in financial markets, we tend to blame central banks for potential asset class bubbles. However, when things go wrong, we pray for central banks to support asset prices, to tackle financial crisis and to remain focused on their mandate of financial stability. In other words, we pray for central banks to recreate the conditions which we will be able to blame them for later!

This morning, a powerful rally in sovereign bonds has gathered pace amid mounting concern over the economic fallout of the spreading coronavirus. Stocks tumbled yesterday and current US equity futures point to another day of losses on Wall Street. Ten and thirty-year Treasury yields have shortly slipped below 0.75% and 1.25% respectively, for the first time on record. In Asia, stocks from Tokyo and Sydney to Hong Kong and Seoul fell more than 2.0%, while the yen rallied to a fresh six-month high (¥ 105.00 versus the US dollar). WTI oil has retreated below $45 per barrel in New York.

Next up for investors is this afternoon February U.S. jobs report, which is forecast to show a deceleration in employment gains after a strong January showing. Bloomberg consensus is for February payrolls to have risen by a healthy 175,000 (following a 225,000 jump in NFP for the previous month). It will also be worth keeping a close eye on the other important elements of the report, namely the unemployment rate (expected to remain unchanged at 3.6%), average hourly earnings (likely to rise by a decent +0.3% mom & +3.0% yoy), the participation rate (expected unchanged at 63.4%) and average weekly hours (expected unchanged at 34.3 hours).

Whatever happens in markets later today, one thing is certain in global markets: The scale of this week's market movements and volatility surge have few precedents, and everyone involved is going to have good or bad stories to tell! Also going forward, investors and traders will have to adapt to a whole new beast: Previous calm in markets has now been replaced with wild fluctuations that will tear up targets and confound market views (forget about trying to predict where stocks, bonds or commodities will be in six months or a year!). For now though, all market participants are still catching their breath and bracing for whatever comes next!

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