Weekly Market Summary

March 13th, 2020

Friday 13th, 2020.... Maybe Will Have a Better Luck Today?!

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Latest Update on Coronavirus: Confirmed cases last at 136,388 (versus 100,162 last Friday), 4,995 deaths (versus 3,406). The COVID-19 is now affecting 129 countries and territories around the world. The UK government has abandoned efforts to contain the outbreak and Australia's minister of home affairs, who met Ivanka Trump last week, said he has the disease. Canadian Prime Minister Justin Trudeau is self-isolating after his wife tested positive, whilst President Trump suggested he has not been tested for the coronavirus despite coming into contact with a person who only days later tested positive! In Italy, daily life has grounded to a total halt, while in the US, Broadway is going dark and Disney parks are shutting their doors for the first time since the September 11, 2001 attacks. Nearly every sport event around the world has been affected, including soccer, with the English Premier League the latest to announce suspension of play!

Ugh!! Just when I thought I had seen it all in my 28-years' professional career, along came another jaw-dropping set of events this week! While I always knew that gyrations in financial markets can be startling and projected that this week's price action would turn ugly, little was I prepared for what was soon coming!

A breakdown of OPEC talks in Vienna last Friday, followed by Saudi Arabia's announcement that it would abandon attempts to limit supply, and instead aim to increase market share, was surely projected to result in a historic fall in oil prices and a full-blown crisis in financial markets when trading resumes early this week. The rest, however, is history: Brent and West Texas Intermediate crude both fell close to 25% in early Asian trading on Monday, setting the stage for the worst day for oil prices since January 1991 - when a coalition was fighting Iraq over its invasion of Kuwait. Additionally, moves this dramatic can create quite a shock, especially with regards to their impact on the economy (greater risk of bankruptcy for leveraged US shale oil producers, which would in turn hurt banks and credit investors, as well as increase the danger of a deflationary spiral). That surely explains the collapse in US interest rates on that same day, with 10-year and 30-year US Treasury yields at one point down by a whopping 40 bps from Friday's closings. As to equities, global stock markets posted their steepest fall since the 2008 financial crisis, with the crash in oil prices amplifying concerns about the escalating economic cost of the coronavirus outbreak; Trading on Wall Street was frozen within minutes of the market opening (system failure), with the Dow Jones Industrial Average (DJIA) eventually closing down by more than 2,000 points for the first time ever, a decline of 7.8%.

Price action for the remainder of the week proved to be very similar, with U.S. and global stocks experiencing their biggest sell-off since 1987. After all, the coronavirus outbreak was spreading fast and reaching new levels! The Italian government had quarantined the whole country, New York City declared a state of emergency and France was shutting down all schools. Even substantial liquidity offers by the US Federal Reserve (up to $5 trillion USD Dollars over the coming weeks) and the European central Bank were failing to calm alarmed markets! Yesterday again, the S&P 500 fell by another 9.5% (the Monday to Thursday loss reaching a staggering 17%), in a wild session that saw market-wide circuit breakers triggered for the second time in a week. That took its drop since the February 19 record to 27%, ending the bull run that began 11 years ago.

The US President's travel ban and tepid fiscal measures had surely sparked the latest leg down in risk assets. Speaking on Wednesday evening, Mr. Trump described the coronavirus as a "*foreign virus*" and boasted that his administration had conducted the most aggressive and comprehensive effort "*in modern history*". Additionally, Trump announced that he would be signing an order "suspending all travel from Europe to the United States for the next 30 days." "*These prohibitions will not only apply to the tremendous amount of trade and cargo, but various other things as we get approval. Anything coming from Europe to the United States is what we are discussing*," the President had added, before assuring Americans that their insurance providers "*agreed to waive all co-payments for coronavirus treatments, extend insurance coverage to those treatments, and to prevent surprise medical billing*." Within hours, White House officials were walking back what he had said; Instead, administration officials said that cargo transport from Europe would not be suspended and permanent US residents would be exempt from the restrictions. Insurance companies also had to clarify that their negotiations with the White House has been about the cost of testing, not treatment! (a case of crisis leadership at its best!)

Last week, we noted to our valuable clients and readers that whatever happens in coming days/weeks, one thing is certain in global markets: The scale of the latest market movements and volatility surge has few precedents, and everyone involved is going to have good or bad stories to tell! We also noted that 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. This time around, and after a close look at this week's market drama, we will point to the following: This looks like a truly historic juncture, of the kind that comes along only every few decades, as the international financial order shifts (similar to the termination of the Bretton Woods accord / gold standard in 1971, the collapse of the Soviet Union and the resurgence of China, that ushered in a quarter-century of triumphalism for a new model anchored by broadly trusted central banks, later foundering during the financial crisis of 2008-2009). The twin shocks of the epidemic and the oil price now appear to have wounded confidence that the U.S. and other global powers can save the day. Risk sentiment remains fragile and equally worrisome is that market functioning has become impaired. Surely aggressive and more permanent measures are now needed to improve market functioning. Who knows, maybe a new financial order is required! A decade of monetary expansion had postponed the issue, though it is hard to see how it can be delayed much further with a debt based financial system, fuelling all sort of asset bubbles, sooner or later imploding.

On the positive side, sentiment was buoyed earlier today by three pieces of news: First, there were reports that House Democrats and the White House are close to reaching a deal on a coronavirus response package. The House will vote on the bill today and before its recess next week, while the Senate has cancelled its recess due for next week in order to vote on the bill. Details so far are that the legislation will provide sick pay, free testing and other resources, though it could also include stimulus measures of the likes seen this week in the UK and Australia. Second, German Chancellor Angela Merkel and Finance Minister Olaf Scholz have affirmed this week that the German government will do "everything" to ensure the economy and companies weather the crisis. Third, there is a newswire report of a Canadian company claiming to have developed a COVID-19 vaccine and could start human trials on the vaccine within weeks.

Who knows? Maybe, just maybe, Friday 13th March 2020 will bring some good luck to markets!

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