Weekly Market Summary

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Financial Markets Grind to a Halt! All Eyes & Ears on Latest Coronavirus Developments
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Latest Update on Coronavirus: Confirmed cases last at 83,877 (versus 76,731 last Friday), 2,867 deaths (versus 2,247). The COVID-19 is now affecting 56 countries around the world (& the "Diamond princess" cruise ship harboured in Japan). Growing concerns over the pace of infections in South Korea where new cases continue to advance rapidly, bringing the total number this morning to 2,337 from 200 last week. Overnight reports that California is currently monitoring 8,400 people for signs of exposure to the coronavirus after they travelled to Asia are also contributing to further market nervousness. The coronavirus outbreak has reached a "*decisive point*" and has "*pandemic potential*", according to World health Organization head Dr. Tedros Ghebr!

This week was supposed to be relatively quiet in terms of economic data releases and market movements, with scattered US data (FHFA house price index, New Home sales, Durable Goods orders and Conference Board consumer confidence, 4Q19 GDP revisions), as well as German IFO survey, EC business and consumer confidence data and Japanese CPI figures. After all, FOMC minutes - released the previous week - had pointed to a Federal Reserve closely monitoring the economic impact of the virus, which had emerged as a new risk to the global growth outlook, though Fed officials were still projecting the effects on the US economy to be short-lived and that US short-term interest rates would remain unchanged for the foreseeable future.

Instead, fear tightened its grip on global markets with global equity markets plunging (their worst week since the 2008 crisis) whilst most sovereign bonds and the Japanese yen witnessed sharp rallies as investors and traders sought shelter. The dollar extended its retreat after a strong rally in the first part of 2020 and Brent crude dipped through US$ 50 a barrel as investors assessed demand prospects for commodities with the virus spreading and weighing on global economic growth. Treasuries climbed, with 10-year US yields dipping to 1.16% (roughly 30 bps lower compared to last Friday's level & 75 bps below highs witnessed in early January this year!). The VIX, or so-called fear gauge which measures options volatility on the S&P 500 was last trading at 45, its highest level since October 2011. In fact, the stock rout was so brutal that even the rally in gold prices hit a wall this week as investors most likely closed winning long positions in the yellow metal to cover for margin calls elsewhere. With the likes of Citigroup Inc. analysts saying they want to see markets "*closer to panic*" before going all-in on global equities, there was surely no sign of dip-buying this morning ahead of the weekend (I guess no point in trying to catch a falling knife! Unless we get that market bounce later this afternoon).

Over the past few weeks, we have regularly highlighted that coronavirus' infections are not the main driving factor behind the market's heightened worries (if you still trust official WHO numbers, this morning's outstanding active cases stand at 44,000 globally, a sharp drop of 15,000 from similar readings in mid-Feb). Instead, it is the way COVID-19 has spread rapidly to all continents (especially Europe and the Middle East in past days) and more importantly how consumers, businesses and governments respond now to an outbreak that will matter most! For instance, people are more likely to stay home now to avoid getting sick, preventing them from traveling, shopping and working. Doing so limits demand for consumer goods and energy; Meanwhile, decisions by companies and governments to close shops and idle factories will curtail production. Even the International Monetary Fund ("IMF"), which had lately reiterated its positive outlook for global economic growth this year whilst cautioning against risks associated with the coronavirus, is now having second thoughts and could soon downgrade its growth forecast for the global economy (as suggested by an IMF spokesman yesterday).

And whilst President Donald Trump continues assuring Americans that they face little risk from the coronavirus outbreak (sadly though, he chose sleepy Vice president Mike Pence to lead the government's response and called the US response to the virus so far "*an incredible achievement*"), the head of the World Health Organization (WHO) - Dr. Tedros Ghenreyesus – believes that "*we are actually in a very delicate situation in which the outbreak can go in any direction based on how we handle it*". "*This is not a time for fear. This is a time for taking action to prevent infections and save lives now*", he added. For Scott Minerd, who oversees about $215 billion for Guggenheim Investments, the coronavirus is "*possibly the worst thing I've seen*" as a money manager because of its potential to spread globally and the Federal Reserve's limited tolls to blunt its economic impact. "*The Fed is fairly impotent in this environment*," Minerd said during a Bloomberg Television interview on Thursday. Still, buying opportunities may emerge if the market shows signs of finding a floor; "*We clearly are in danger. Now I'm going to look for its cousin -- opportunity*."

In past days, investors have continued rushing into bets that the US Federal Reserve will be forced to cut interest rates when they next gather in Washington for their March 17-18th meeting. Chances of quarter-point reductions at each of their next three meetings – in March, April and June – are now seen to be above 50%, according to future contracts linked to their benchmark federal funds rate. For now, US Fed officials believe it is premature to think about monetary policy action, at least until they have more data and a better idea of how recent developments will impact the US and global economy. It may take several months to judge the impact of the coronavirus outbreak on the US economy, Federal Reserve Bank of Chicago President Charles Evans (a Fed Dove) noted yesterday. "*But we are monitoring it very closely, and if we see something that does require adjustment, I am confident we will give that all the consideration it needs.*"

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