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COVID-19 and Oil finally catch up to Equities

Drives Bond yields to record lows

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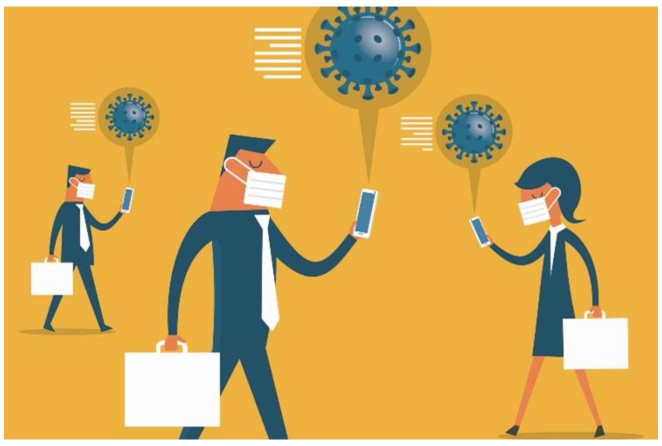
After resisting the rather obvious and impending effect of coronavirus, markets have finally been hit by a double tidal wave. Caused by fears over the spreading virus and oil price declines, it sparked a massive sell off in equities and Bond yields which tumbled. The US government benchmark dropping to a record low of 0.318% on Monday 9th March.

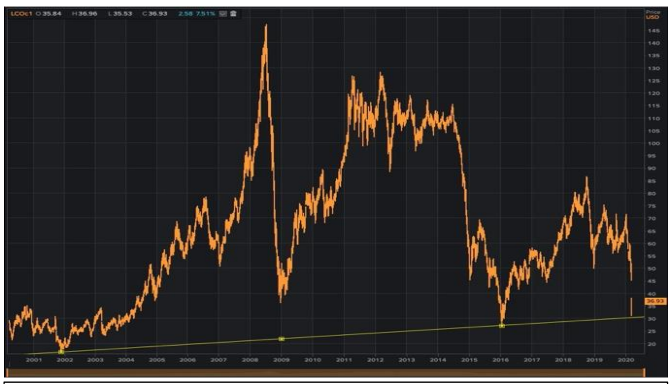
COVID-19 continues to spread and is becoming more visible every day. For so long seen as an Asian issue by the west, it has now reached everywhere. Italy, which has been the hardest hit in Europe, has initiated a nationwide lockdown. The UK is seeing increasing cases and Boris has made noises on his plan to fight it head on. In the US, now with the most cases out of any other country, politicians have had to face facts despite Trump's claims of 'fake news'; that their measures so far don't seem to be having the desired effect as the number of cases continues to spiral out of control. Air travel has been disrupted in a way not seen before the coronavirus. It is now affecting major sporting events around the world as well, which although far less critical could move it to the forefront of every workingman's focus.

Whether or not you think it is being blown out of proportion no longer matters, the fact is the global economy is being heavily impacted by COVID-19 fears.

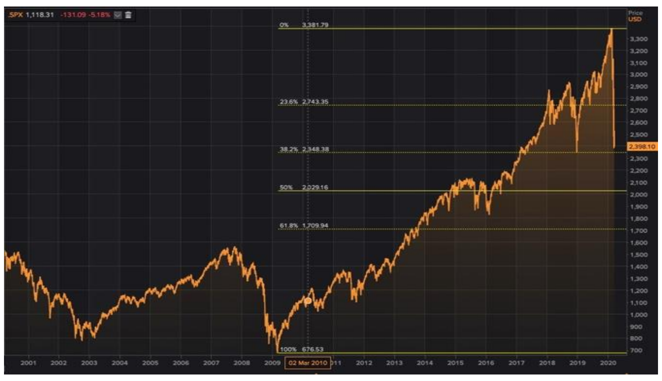


Oil fell 20% in early March. In this environment of lower economic activity, fear, and uncertainty everywhere, demand for oil was already under pressure. On top of the gloom, OPEC decided to increase supply to try to financially compensate for the lack of demand; this was the first time in 3 years Saudi Arabia has a much lower cost base for their oil production. This is not the case for US shale producers who are rushing to cut spending and output, as it no longer makes economic sense to continue producing at these low prices. As a result, oil fell sharply. A consideration to be made is how it will affect the US in terms of oil producing and their reliance on OPEC long-term.

Consequently, the effect on stocks was finally felt in the US with an estimated $5trillion being wiped off US Stock valuations on Monday 9th March.



20yr Brent chart: Long term support showing



20yr S&P chart: Watch Fibonacci support at 2351

For bonds, Treasuries have obviously benefitted along with gold as safe haven plays, but interestingly Crypto currencies did not benefit from the troubles and were also sold off, which shows that people don't trust them enough when genuine turmoil raises its head.

On the bright side, understanding what drives markets and the interdependency amongst different asset classes will allow you to better protect your institution and clients. Everything is connected and knowledge is key. Having the right strategy, be it defensive (hedging) or offensive (trading), can only be developed if you understand the mechanics of markets, economies and what is the driving force behind them. Currently economic and trade fears are affecting all markets, particularly oil, stocks, and treasuries. What happens next will be heavily influenced by COVID-19's trajectory over the coming months.

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