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US Financial Markets – The Week in Review

30 March 2020

Economic and political backdrop

Last week got off to a poor start as a US$2 trillion stimulus bill failed to clear a procedural hurdle in the Senate for the second time in two days, with Democrats objecting to a lack of transparency in how a US$500 billion loan programme would be used and overseen. Markets snapped back on Tuesday, however, after House Speaker Nancy Pelosi stated she was hopeful a deal would be reached imminently. At his daily press conference, President Trump stressed the need to act quickly and stated his hope the economy would begin moving back to normal by Easter (12 April).

Around midnight Tuesday, the White House and congressional leaders finally agreed on a US$2.2 trillion stimulus package, including US$350 billion in support for small businesses, along with US$1,200 direct payments to lower- and middle-income adults and US$500 per child. The bill also expanded unemployment insurance and provided additional funding for providers of healthcare services. The Senate passed the legislation unanimously (by a vote of 96 to 0) on Wednesday, the House passed the bill by a voice vote on Friday and President Trump signed the largest-ever US stimulus package into law.

The Federal Reserve expanded its own stimulus measures, boosting both equity and fixed income markets. On Monday morning, the Fed announced it was setting no limit on its purchases of Treasuries and agency mortgage-backed securities while also beginning to purchase investment-grade corporate bonds. In addition, the Fed revived the Term Asset-Backed Securities Loan Facility (TALF) – originally launched in 2008 – which is designed to support bonds backed by student and auto loans as well as other types of asset-backed securities. The central bank also said it was taking steps to assure the flow of credit to municipalities and announced plans for a lending programme for small businesses.

Glimmers of hope in the battle against the pandemic also seemed to support sentiment at midweek. New York Governor Cuomo stated on Wednesday that a slowing growth rate in hospitalisations may be evidence that social distancing could be working. Reports also surfaced of progress in developing home testing kits for the coronavirus. Economic data were predictably grim, however, with a record 3.3 million Americans filing for unemployment in the week ended 21 March.

Equity markets

The S&P 500 returned 10.3% (-20.7% YTD). Stocks rebounded from three-year lows, as investors appeared encouraged by further aggressive monetary policy actions and the passage of an unprecedented level of fiscal stimulus. On Tuesday, the Dow Jones Industrial Average had its best day since 1933, and the S&P 500 experienced its largest daily rally since October 2008, with all the major US equity indexes surging by around 9% to 11%. By the close of business on Thursday, the Dow had marked its best three-day stretch since 1931, although the major indexes surrendered a portion of their gains to close out the week on Friday.

Heavily beaten-down energy shares outperformed as oil prices stabilised somewhat – Brent ending the week at US$24.9 for a barrel – and US officials put pressure on Saudi Arabia to end its price war with Russia. Airline shares also bounced back at midweek as news arrived of a US$60 billion bailout package for the industry as part of the stimulus bill. Utilities shares were also strong, while communication services shares lagged.

Fixed income markets

US Treasury yields decreased as the Fed's purchases of Treasuries and expanded funding, credit, and liquidity facilities aided market functioning. US 10-year Treasury yield declined from 0.85% to 0.68% over last week.

The Fed's announcement that it will begin purchasing corporate debt in both the primary and secondary markets, as well as progress by lawmakers in approving an economic stimulus plan, supported the performance of investment-grade corporate bonds.

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The improved sentiment prompted many issuers to come to the market, and the volume of new deals reached the highest weekly total on record. The issuance was met with solid demand from domestic and overseas investors.

High yield bond investors continued to be mindful of cash balances due to the pace of recent outflows from the asset class. However, market sentiment improved as the week progressed amid strong equity gains in response to the federal government's historic stimulus plan.