Wall Street has best day in over a decade as stimulus deal nears

Date published: 24 March 2020

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Source: FT.com

Word count: 789

Link To FT.com: **https://www.ft.com/content/2472172a-6d74-11ea-9bca-bf503995cd6f**

US stocks had their best day since the financial crisis more than a decade ago on Tuesday, on signs that Congress was closing in on an agreement for a potent fiscal stimulus package to alleviate the economic and financial market effects of the coronavirus.

The US benchmark S&P 500 closed up 9.4 per cent at its high for the day, anticipating a deal to pour nearly $2tn into the US economy in the form of bailouts for stricken companies and payments to individuals. Nasdaq was up 8 per cent.

An 11.4 per cent increase in the Dow Jones Industrial Average of US blue-chip stocks was its biggest since 1933 during the Great Depression.

“The market is definitely excited by the prospects of the historic $2tn virus relief bill,” said Stephen Aniston, president of Vixcontango.com, a volatility trading analytics provider.

“I can hardly think of other legislation that will be as well received and as popular as this one. This is a very balanced package that will make both Republicans and Democrats happy as well as the average American.”

Nancy Pelosi, Democratic speaker of the House of Representatives, told CNBC on Tuesday morning that there was “real optimism” that an agreement would be reached “in the next few hours”. Less than an hour later, Mitch McConnell, the Senate’s top Republican, said negotiators were “very close” to a deal.

The S&P 500 remains down more than 27 per cent from its peak on February 19.

Herculean efforts by central banks and governments

Kit Juckes, Société Générale strategist

European bourses also jumped on Tuesday, with the continent’s Stoxx 600 index up 7.5 per cent. London’s FTSE 100 rose 9 per cent, while Frankfurt’s Dax gained 11 per cent.

Adding fuel to the broad-based global equities rally were the reverberations from the Federal Reserve’s additional monetary measures announced on Monday.

The US central bank unleashed its most forceful effort to date to contain the fallout of the pandemic, including a pledge to buy US government bonds in unlimited amounts and provide a backstop to the US corporate bond market.

Mr Aniston said "big short covering is happening" in sectors hardest hit by the outbreak such as airlines, where stock prices reversed sharply. A US exchange-traded fund tracking global airlines was up 19 per cent, the SPDR S&P Homebuilders ETF was up 15 per cent, a fund tracking the auto sector was 12 per cent higher and the Energy Select Sector SPDR ETF was up 16 per cent. Defensive sectors such as consumer staples and utilities lagged behind on Tuesday, while cyclicals were leading.

The Cboe Volatility index — known as the market's "fear gauge" — fell from elevated levels, trading around 60.

Kit Juckes, strategist at Société Générale, said the improvement in mood followed "Herculean efforts by central banks and governments".

"Overall, the response is broader, and bigger than during 2008/2009 financial crisis. But this is more global, and more serious. If you take a step back and look at what the Fed has done . . . it's incredible," he said.

The dollar, which has surged amid the crisis, weakened to provide some respite for vulnerable currencies including the British pound, which rose close to 2 per cent to $1.17.

The 10-year US Treasury yield gained 0.03 percentage points to 0.82 per cent. The exchange traded fund LQD, which tracks an investment-grade corporate bond index, rose about 2 per cent after jumping 7 per cent on Monday following the Fed's intervention.

The price of Brent crude, the international oil marker, settled 0.4 per cent higher at $27.15 a barrel.

The economic picture remains bleak across the world. Surveys on Tuesday showed that business activity in Europe crumbled this month, providing some of the first glimpses into the extent of the damage to the region's economy caused by the pandemic.

Analysts said the real situation was likely even worse, as more restrictive measures banning social contact came into force in most countries after the surveys were taken.

Credit Suisse said it expected the S&P 500 to rise 20 per cent from current levels by the end of the year, but its chief US equity strategist Jonathan Golub warned there will be further pressure on stocks in the coming weeks as poor economic data tests investor confidence further.

"For the US economy to be able to come out of the current crisis and the ongoing recession relatively unscathed, more radical policy interventions will be needed in the next few weeks," said Anna Stupnytska, global head of macro and investment strategy at Fidelity International.

"It's still anyone's guess how deep this actually is," said Bert Colijn, a senior economist at ING. "Perhaps most relevant is how much unemployment and bankruptcies can be avoided to determine the possible steepness of a recovery."