MarketWatch

Dow books nearly 600-point drop as Fed efforts overshadowed by rising U.S. coronavirus cases, stalled aid legislation

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Fed says it would buy assets 'in the amounts needed' to support smooth market functioning

President Donald Trump, flanked by FEMA Administrator Peter Gaynor, right and Vice President Mike Pence, speaks Sunday at the White House.
AFP/Getty Images

U.S. stocks booked sharp losses Monday as the rapidly rising number of coronavirus cases across the nation overshadowed the Federal Reserve's pledge to buy unlimited bonds and bolster emergency lending facilities to support the flow of credit into the economy.

The central bank's unscheduled announcement comes as investors remain unhappy with a lack of government action to address the fallout from the COVID-19 pandemic.

How did market perform?

The Dow Jones Industrial Average DJIA, -3.036% tumbled 582.05 points, or 3%, to settle at 18,591.93, its lowest reading since Nov. 9, 2016, the day of President Donald Trump's election. The S&P 500 SPX, -2.929% slipped 67.52 points, or 2.9%, to close at 2,237.40 points. The Nasdaq Composite COMP, -0.274% shed 18.84 points, or 0.3%, to end at 6,860.67.

The weakness in equities confirmed the bearish overnight action in futures markets. All three index futures had hit their 5% daily limit at the open of trade, which began at 6 p.m. Eastern Sunday. Futures index moves that are greater than 5% trigger so-called limit-up and limit-down rules.

It's important to note that the New York Stock Exchange went all-electronic on Monday, marking the first time the exchange has operated without floor traders.

What drove the market?

The Fed unleashed its most aggressive action to date in saying it would purchase an unlimited amount of Treasurys and mortgage-backed securities, as needed, to support smooth market functioning and effective transmission of monetary policy. The Fed initially said it would by $700 billion of assets.

The U.S. central bank also launched and expanded several emergency lending facilities to prop up markets for corporate credit, municipal debt and asset-backed securities.

"Moving to open-ended purchases sends a powerful signal to markets that the Fed will not let markets run out of control as it fights to stabilize the U.S. economy. However, this felt like it could be the final policy move from a central bank that now has few cards left to play by itself," said Oliver Blackbourn, multi-asset portfolio manager at Janus Henderson.

But the Fed's actions struggled to boost sentiment as investors remain focused on the rising number of coronavirus cases in the U.S. New York Gov. Andrew Cuomo said the number of confirmed cases in New York state jumped to more than 20,000, making it a hot spot in the global pandemic.

"Each time the Fed comes out with more stimulus, the bounce in the markets has been short-lived," said Randy Frederick, managing director of trading and derivatives at Schwab Center for Financial Research, in an interview.

"I saw the Fed's actions as sort of a blank check. If that's not enough, markets are still worried about the spread of the virus," he said.

Investors also noted that an important Senate vote on coronavirus rescue package failed to gain sufficient votes on Sunday and on Monday.

Democrats have argued the details of the bill were geared toward helping Wall Street more than Main Street, as COVID-19, the infectious disease that has been contracted by more than 300,000 people globally, rapidly spreads and threatens to throw the domestic and global economy into a recession. The U.S. has recorded more than 33,000 cases so far.

The stalled bill reflects a lack of consensus between Democrats and Republicans to coalesce around a package at a crucial time for the economy and financial markets, which has been hammered as the virus has ground business activity to a halt.

On top of that, St. Louis Fed James Bullard told Bloomberg News during a Sunday interview that the U.S. unemployment rate could hit 30% in the coming months as the world continues to grapple with the coronavirus pandemic. “This is a planned, organized partial shutdown of the U.S. economy in the second quarter,” he said.

How did other markets trade?

The yield on the benchmark 10-year Treasury note TMUBMUSD10Y, 0.788% slid around 18 basis points to 0.76%. Bond prices move in the opposite direction of yields.

West Texas Intermediate crude for May delivery CLK20, 5.259%, the U.S. benchmark of oil prices, rose 3.2% to settle at $23.36 a barrel on the New York Mercantile Exchange. In precious metals, gold futures for April GCJ20, 5.092% climbed 5.6% to finish at $1,567.60 an ounce on Comex.

The ICE U.S. dollar index, DXY, -0.321% which tracks the greenback’s performance against a basket of currency trading peers, fell 0.3%.

Global equities were mixed. The Stoxx 600 Europe SXXP, -4.30% closed 4.3% lower. In Asia, China’s CSI 300 000300, -3.36% fell 3.4% amd Japan’s Nikkei index NIK, +2.02% gained 2%.

Which stocks were in focus?

Shares of **General Electric Co.** GE, -6.28% fell 6.3% after the industrial conglomerate said its GE Aviation unit is planning to cut 10% of its U.S. workforce, as the COVID-19 pandemic has led to a “rapid contraction” of air travel.

Shares of **PG&E Corp.** PCG, +12.46% surged 12.5% after the utility provider said it had resolved all state charges related to the 2018 Camp Fire through a plea agreement, which includes pleading guilty to 84 counts of involuntary manslaughter and one count of unlawfully starting a fire.

Boeing Co. BA, +11.16% said it would suspend production at its Puget Sound facilities due to the coronavirus. The halt is intended to last two weeks beginning March 25. Shares of the aerospace giant, however, were finished up 11.2%.

https://www.marketwatch.com/story/dow-futures-plunge-the-most-allowable-as-coronavirus-slams-market-fed-officials-warns-unemployment-could-hit-30-2020-03-22?mod=mw_quote_news