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U.S. MARKETS

U.S. Stock Futures Decline as Volatility Increases

European equities buoyed by an unexpected rate cut by the Bank of England

By Anna Isaac and Frances Yoon

Updated March 11, 2020 8:56 am ET

U.S. stock futures fell Wednesday as investors' anxiety about the economic fallout from the coronavirus outbreak left markets poised for another day of tumultuous trading.

Futures tied to the Dow Jones Industrial Average dropped 3%, suggesting the U.S. blue-chips gauge is likely to open over 700 points lower. That follows a frenetic day that saw the key equity benchmarks soar in the final hours of trading. A closely watched measure of turbulence in U.S. stocks, the Cboe Volatility Index, inched up to near its highest in a year.

"For private investors, getting into markets at the moment is like juggling with knives: it's just far too risky," said Ian Shepherdson, chief economist at Pantheon Macroeconomics. "For short-term traders, this volatility is very exciting, but for long-term investors, it's worrying."

After an 11-year run, the bull market in S&P 500 stocks is coming to an end, equity analysts at Goldman Sachs Group said in a note Wednesday. Lower crude-oil prices and interest rates are likely to erode earnings for energy and finance companies, and business activity will probably be weaker than previously anticipated in other sectors, they wrote.

"Both the real economy and the financial economy are exhibiting acute signs of stress," Goldman Sachs said in the note.

European stocks drifted lower, shedding much of the gains posted in the morning after an unexpected rate cut by the Bank of England. That left the Stoxx Europe 600 index wavering between gains and losses.

The easing of monetary policy in the U.K. came with other measures to support the economy, including cheaper borrowing for small businesses.

The BOE made its move just over a week after the Federal Reserve cut its key interest rate. The European Central Bank is expected to ease policy Thursday as authorities take steps to shield economic growth from the impact of the epidemic as business activity and travel is curtailed.

"The U.K. was the first example of truly coordinated action from the central bank and the Treasury," said James Smith, developed markets economist at ING Bank. Markets are now poised to see if countries and central banks would follow the U.K. 's lead. "The Fed will be under a lot of pressure with rates so low elsewhere," Mr. Smith said.

The yield on 10-year U.S. Treasurys edged down to 0.694%, from 0.743% on Tuesday. Bond yields, which move inversely to prices, have careened in recent days: the widely watched benchmark tumbled from above 1% on Thursday to a record intraday trough near 0.4% on Monday as investors sold off equities and raced for the shelter of government bonds.

"When we talked about recession fears over the years since the financial crisis, we've always been comforted by relatively narrow credit spreads," said Seema Shah, chief strategist at Principal Global Investors. PFG **6.10%** ▲ "Now we're seeing those start to widen, and corporate debt levels have risen recently, risks of defaults are that bit higher."

Brent crude, the global benchmark for oil prices, dropped 4.1% to $35.67 a barrel. Saudi Arabia unveiled plans Wednesday to increase its production levels even further days after it instigated a price war with Russia.

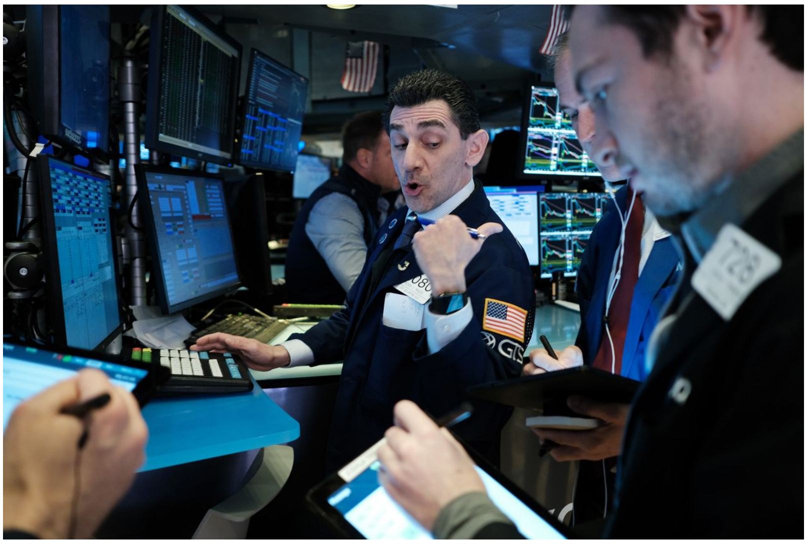
Meanwhile, the number of coronavirus cases in the U.S. topped 1,000, while China reported an increase in infections imported from abroad, highlighting the challenges authorities face in containing the epidemic. New York set up the country's first "containment area" around one of the largest clusters of cases in the nation.

"Nobody trusts the numbers at this point in the U.S., because of the failure to get testing kits out," Mr. Shepherdson said. "What if the U.S. next week reports 2,000 new cases in a day? Markets would look at that and see it as a sharp uptick and we could have a very messy day again if that happens."

In the Asia-Pacific region, major markets reflected investors' continued concerns about global growth prospects. Japan's Nikkei 225 index declined 2.3% to close at its lowest level since December 2018. Australia's S&P/ASX 200 dropped 3.6% to enter a bear market, typically defined as a decline of at least 20% from a recent peak.

"It's too early to call this stabilization, and it's too early to position for a rebound here," said Mayank Mishra, a global macro strategist at Standard Chartered Bank in Singapore. "Financial markets will continue to focus on the economic implications from the virus, and right now the global outlook for growth is not rosy."

While markets had already priced in likely interest-rate cuts and other support from central banks, government action moves at a slower pace, according to Mr. Mishra. “The fiscal response is a slower-moving beast, so let’s see how that helps stabilize global financial markets,” he said.



Traders at the New York Stock Exchange on Tuesday.

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