

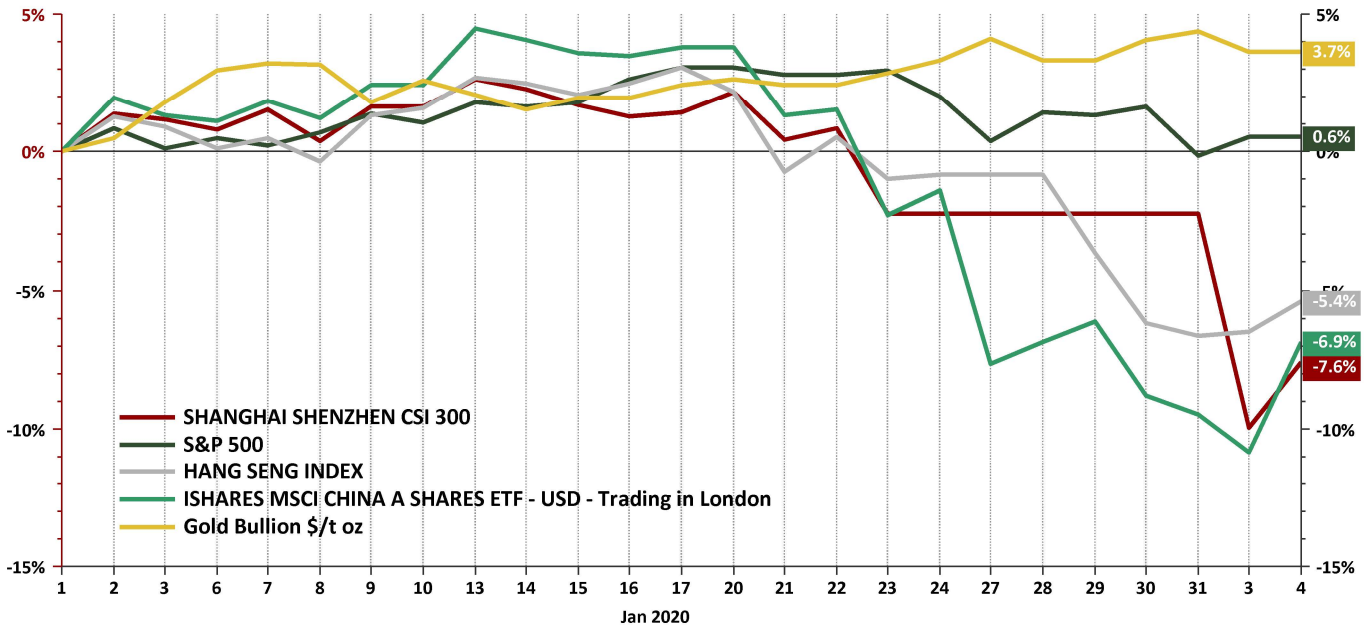
Markets Update – Coronavirus

Updated: 4 February 2020 10:30 GMT



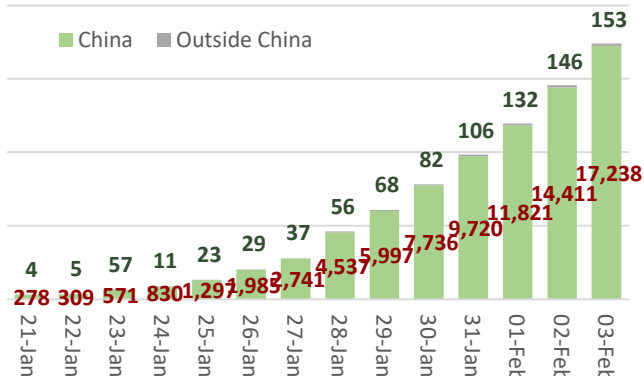
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Market Returns - 2020

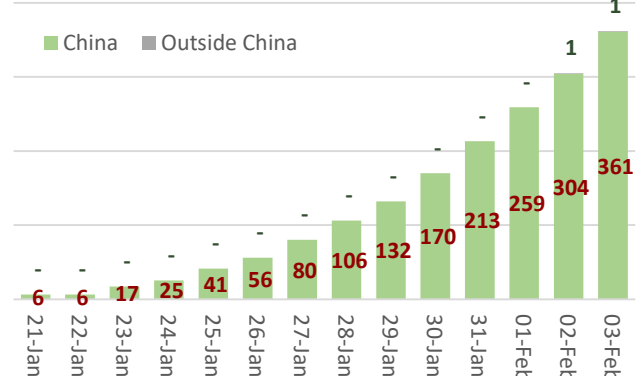


* Local Chinese markets were closed from 23 January and re-opened on 3 February after an extended Lunar New Year. Hong Kong markets were closed on 27 and 28 February. Data on 4 February is as of 08:45 GMT. Source: Refinitiv Datastream.

Confirmed Infections



Deaths



Source: WHO - <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports/>

Background

31 Dec 2019 - The World Health Organisation (“WHO”) was informed of cases of pneumonia of unknown cause. This has since been identified as a novel (new) coronavirus (now called 2019-nCoV).

12 Jan 2020 - China shared the genetic sequence of the novel coronavirus for countries to use in developing specific diagnostic kits.

23 Jan 2020 - The Chinese government issued a lockdown in Wuhan (the epicentre of the outbreak and home to 11 million people). The lockdown encompassed Chinese New Year (25 Jan 2020), which has further implications in terms of increased tourism and migration traffic as well as being an important time of the year for Chinese private consumption.

30 Jan 2020 - The WHO declares a Public Health Emergency of International Concern.

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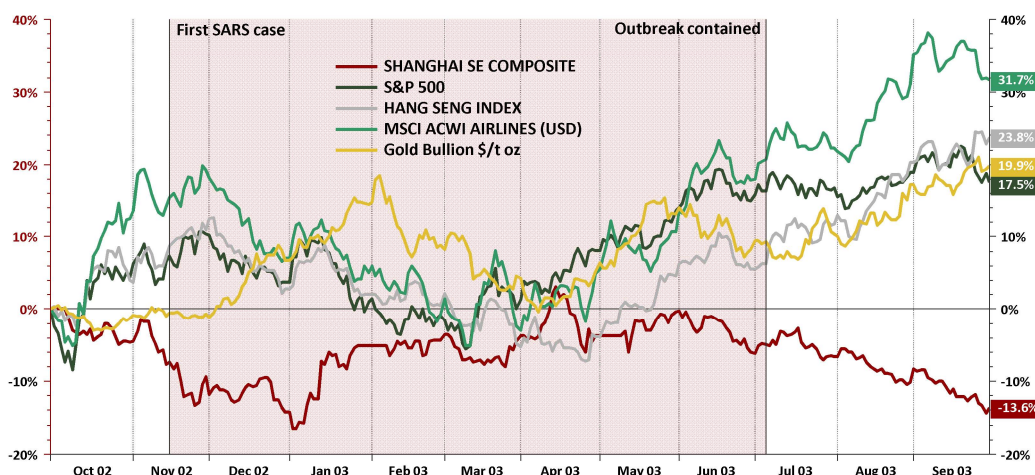
Market Reaction

The market reaction in Chinese equities has been a rapid move down as participants gauge the extent of impact. Playing catch-up, as markets were closed 24-31 Jan 2020 for an extended Chinese New Year and a day trading suspension, onshore Chinese markets fell about 8% on Monday 3 February which followed the People's Bank of China (PBOC) announcement of a net 150 billion yuan (\$21.7 bn)¹ amongst a raft of 29² other measures. These are likely to sustain some support for markets in the short term. Markets bounced strongly on 4 February, with Asian, European and US markets all pointing strongly up.

If one looks at SARS as an example the market was impacted and largely recovered in the space of six months (with the Hang Seng Index down about 20% from peak to trough). China is now a much more important global

economy and the current outbreak does not benefit from the relatively less-extended positioning seen during the SARS outbreak (which was shortly after a financial crisis in late 2002) – so the comparison does have important limitations.

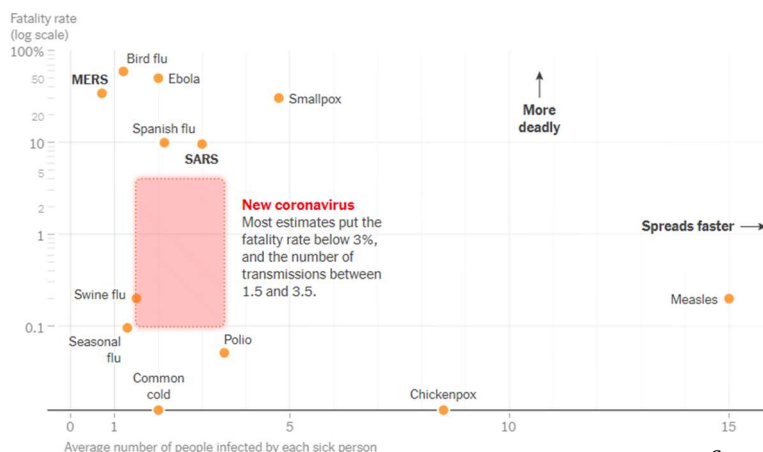
Market Returns - SARS



Source: Refinitiv Datastream.

Latest Infections and Deaths

63% of the total 17,238 confirmed cases are in the Hubei Province, with just 1% of confirmed cases being outside China. The rate of confirmed cases is still increasing quickly (in China) but the rate of increase in number of deaths has slowed over the last few days. The mortality rate is currently (3 Feb) just over 2% (which is much lower than SARS at approximately a 10% mortality rate based on a total of 8,000 cases), but 2019-nCoV is already far more infectious. For comparative purposes, influenza in the US has resulted in between 9 million – 45 million illnesses and between 12,000 and 61,000 deaths annually since 2010.³



Source: <https://www.nytimes.com/2020/02/04/world/asia/coronavirus-china.html>

2019-nCoV has an incubation period (time from infection to onset of clinical symptoms) of 2-11 days. Person to person transmission of the virus is possible and there is a possibility of transmission by someone before they show significant symptoms.⁴



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Economic Impact

While the infections currently disproportionately affect Mainland China, the greatest impact will be on South-East Asia, with several economies closely linked to China. The typical market and economic reaction to such an event is typically V-shaped. Tourism, travel and retail industries are already and will continue to be highly impacted. Service-oriented industries may experience a slower recovery as demand and unspent monies cannot make up for lost time. Estimated impact on China's year-on-year GDP growth are for a drop of between 1.5% and 2.5% on an annualised basis for a short period of time. China's year-on-year annual GDP growth is currently 6.0%. China currently accounts for about a third of global growth so extended distribution will also have global impact⁵, not least due to China's supply chain importance. A fall in China's usual massive demand for oil has helped send Brent crude prices down from a high of \$71.75/barrel on 8 January 2020 to a low of \$54.25/barrel on 3 February 2020.

Risks

The future impact of the virus is too early to call, a prolonged shutdown in China and any spreading of infection outside of China is likely to have a significant impact on growth, especially in sensitive sectors such as tourism and retail.

One of the impacts which is hard to quantify is the sharing of misinformation and fear-mongering on social media (Facebook and Twitter for example) which can result in changing human behaviour which reduces economic activity. The fact that China, being such an important contributor to GDP growth, is the most affected region (along with South-East Asia) makes the spill over effects hard to quantify. We are watching this closely.

With 2019 markets returns largely driven by multiple expansion, this outbreak may provide impetus for a broader market correction – something that many commentators have been forewarning about.

Summary

In summary 2019-nCoV itself does not appear to be that concerning from a mortality rate (but has a moderate transmission rate). However, the short- and medium-term economic consequences are hard to gauge. We are inclined to take advantage of any significant correction by adding more equity exposure in the regions or sectors most affected.

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¹ <https://www.bloomberg.com/news/articles/2020-02-01/pboc-vows-to-maintain-ample-liquidity-amid-coronavirus-outbreak>

² <http://www.pbc.gov.cn/en/3688110/3688172/3967384/index.html>

³ <https://www.cdc.gov/flu/about/burden/index.html>

⁴ <https://www.who.int/news-room/q-a-detail/q-a-coronaviruses>

⁵ <https://www.ft.com/content/8be84270-4430-11ea-a43a-c4b328d9061c?shareType=nongift>