Coronavirus and your portfolio

By Rafia Hasan, CFA, CFP®, Principal, Chief Investment Officer | February 18, 2020

With mounting fears around the Coronavirus, the last few weeks have been turbulent for the stock market. As of the writing of this letter, the disease has infected an estimated 73,000 people, and fatalities currently stand at ~1,800.[1]

The disease was first reported in December 2019 in Wuhan, China. As the number of infections and death toll quickly rose, the World Health Organization declared it a public health emergency on January 30, 2020. The Chinese government has undertaken significant measures to contain the virus by locking down travel to and from the epicenter of the disease, shutting down schools and extending the holidays around the Chinese New Year.

Although cases of the virus have been reported in other countries, the cases outside China have been fairly contained. The number of cases within the U.S. currently stands at 15, with no fatalities reported.

Why is this impacting the stock market?

The fear for the stock market is that all the measures taken to contain the disease will lead to a slowdown in economic activity and hurt business results. You might be thinking, that makes sense for why the Chinese stock market is down, but why does it impact the global market?

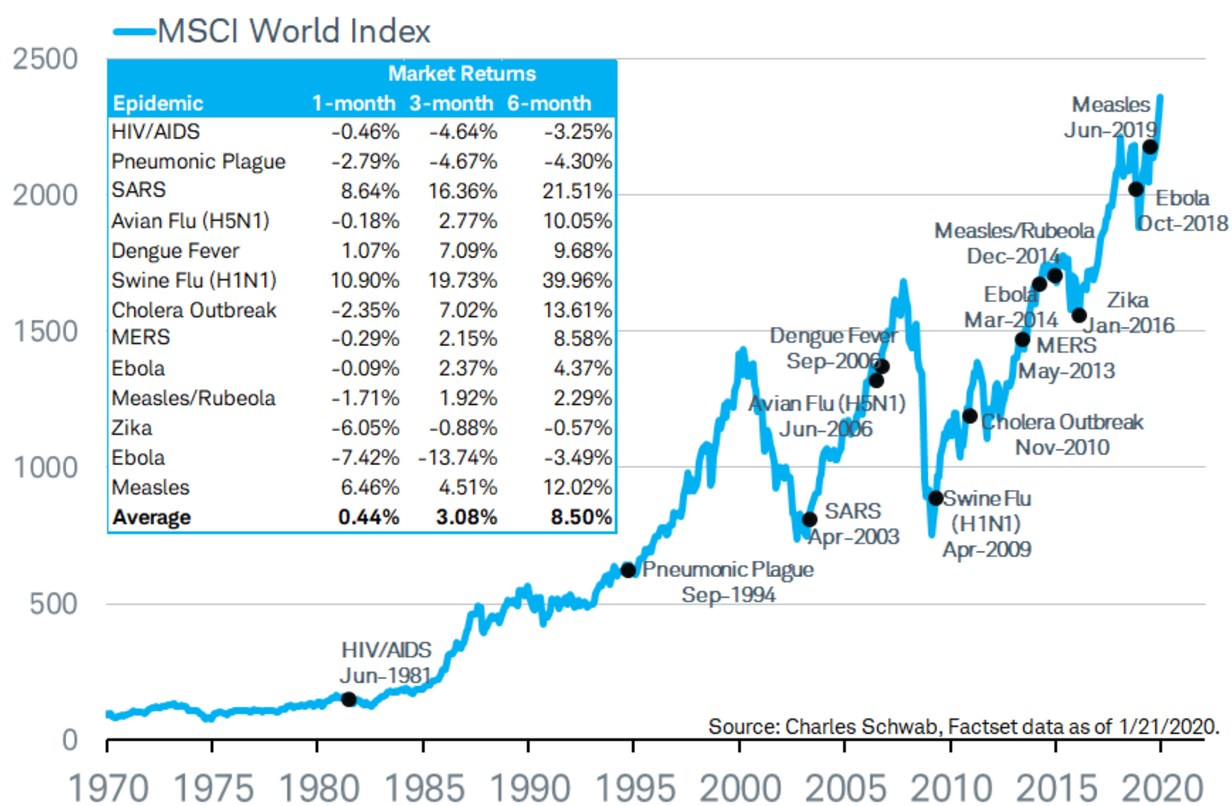
Today, global supply chains are increasingly interlinked, and many manufacturing activities take place in China. If Chinese factories' outputs decline, that has an impact on firms that supply inputs for production (e.g., oil prices experienced a sharp drop in January as fears hit regarding the virus outbreak). It also has an impact on the results for U.S. companies that manufacture their products in China and experience interruptions in supply.

Based on past experiences of epidemics, the slowdown in economic activity can rebound sharply as fears dissipate and normal economic activity resumes. The actual economic impact is difficult to predict and depends on how severe the outbreak is and how quickly it can be contained. One study by Goldman Sachs estimated the impact on global GDP for 2020 to be a decline of between 15 to 30 basis points, depending on the severity of the outbreak.[2]

What type of impact could the Coronavirus have on the stock market?

The next question, then, is what type of market impact should we expect? Market data on past disease pandemics shows that in the first few weeks following an outbreak, bonds (represented by U.S. treasuries) tended to have positive performance, but over the longer-term, stocks (represented by the S&P 500) performed better.[3] What this tells us is that staying invested is likely an investor's best course of action.

Immune: world epidemics and global stock market performance



	Market Returns		
Epidemic	**1-month**	**3-month**	**6-month**
HIV/AIDS	-0.46%	-4.64%	-3.25%
Pneumonic Plague	-2.79%	-4.67%	-4.30%
SARS	8.64%	16.36%	21.51%
Avian Flu (H5N1)	-0.18%	2.77%	10.05%
Dengue Fever	1.07%	7.09%	9.68%
Swine Flu (H1N1)	10.90%	19.73%	39.96%
Cholera Outbreak	-2.35%	7.02%	13.61%
MERS	-0.29%	2.15%	8.58%
Ebola	-0.09%	2.37%	4.37%
Measles/Rubeola	-1.71%	1.92%	2.29%
Zika	-6.05%	-0.88%	-0.57%
Ebola	-7.42%	-13.74%	-3.49%
Measles	6.46%	4.51%	12.02%
Average	**0.44%**	**3.08%**	**8.50%**

The MSCI World Index captures large and mid cap representation across 23 Developed Markets countries. With 1,646 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. **Past performance is no guarantee of future results.**

Source: Decambre, Mark, "How the stock market has performed during past viral outbreaks, as coronavirus infects 31,000," MarketWatch, February 7, 2020, https://www.marketwatch.com/story/heres-how-the-stock-market-has-performed-during-past-viral-outbreaks-as-chinas-coronavirus-spreads-2020-01-22

The above graphical representation of the MSCI World Index going back to 1970, with notations for various world epidemic diseases, shows the stock market's performance through past disease outbreaks.

The key take-away here is that, while the human impact of the Coronavirus is worrying, we don't recommend any changes to your portfolio. History indicates markets have the resiliency to overcome these types of events.

If you have further questions about how the Coronavirus may impact the U.S. and global stock markets or how your portfolio is structured to weather such events, please reach out to your advisor.

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[1] Covid 2019 tracker, London School of Hygiene & Tropical Medicine, https://vac-lshtm.shinyapps.io/ncov_tracker/, accessed February 18, 2020.

[2] The 2019-nCoV (Wuhan Coronavirus) and its Economic and Investment Implications," February 4, 2020, webinar, Goldman Sachs Consumer and Investment Management Division, accessed February 18, 2020.

[3] Ibid.