Will COVID-19 Make your Investments Sick?

The outbreak of a new coronavirus (now named COVID-19), originating in Wuhan, China has so far taken 1,774 lives, and some 70,500 have been infected. (at the time of writing, on Monday 17th).

Clearly this is a human tragedy on a scale we thankfully rarely see, but this article focuses on the possible economic impact, and how global markets may be affected. At the moment, there seems to be no real consensus, with views ranging from 'virtually no lasting impact' to 'global devastation'.

The good news is that in my experience at least, the 'prophets of Doom' are rarely correct.

Billionaire hedge fund giant Ray Dalio thinks the roller-coaster impact of the new coronavirus on markets is probably grossly exaggerated.

The virus is clearly very fast-spreading, and has now been seen in 28 countries, and has "probably had a bit of an exaggerated effect on the pricing of assets," he told attendees of the 2020 annual Milken Conference in Abu Dhabi last Tuesday.

"Because of the temporary nature of that, I would expect more of a rebound. It most likely will be something that in another year or two will be well beyond what everyone will be talking about."

Ray Dalio is the founder of Bridgewater Associates, with some $160 billion under management. His view is much calmer than some analysts on the topic. Some have warned the disease could "evolve into something worse than the flu", and that the outbreak could tip China into a recession that would impact the rest of the world.

Even some Wall Street bulls say they are concerned that the virus could lead to a stock market correction (when stock prices drop at least 10% from recent highs), and that it poses the single biggest threat to the market rally.

U.S. markets managed to recover from earlier panic virus-related sell-offs, with the S&P 500 scoring a new record close. The S&P and Dow are still up on the year.

China's economy is being beaten up though

The virus has shut down business across the Chinese provinces that account for more than 80% of GDP and 90% of exports from China. The Chinese government has instructed workers to stay at home to contain the outbreak. Oil futures prices are down, and OPEC and OPEC+ producers, particularly those in the Middle East, are trying to support falling crude prices.

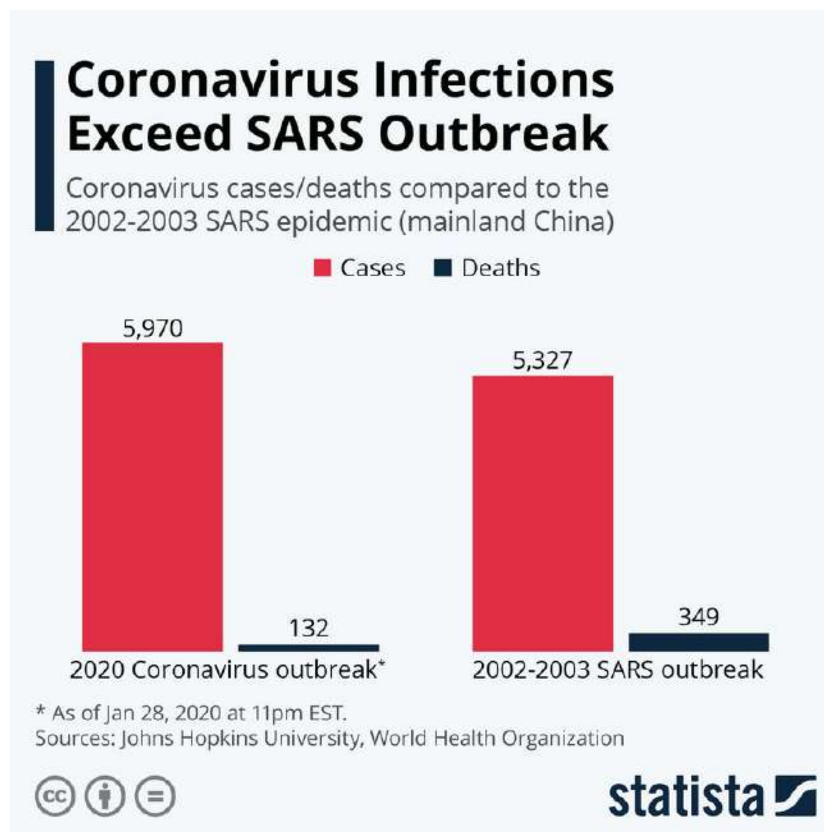
Gross domestic product (GDP) growth in China, where the vast majority of deaths and infections have taken place, is expected to virtually stop this quarter, with a fall to less than 2% growth year-on-year expected. China growth is already down, due not least to its trade spat with the USA.

However, Mr. Dalio says he is much more concerned longer term about issues like wealth inequality.

China's economy will certainly be affected in the short-term. The country has quarantined millions of people, restricted travel and extended the long Lunar New Year holiday to try to limit the spread of the coronavirus. The SARS outbreak in China in 2003 might be an indication of how the coronavirus scare impacts markets. China's economic growth briefly came to a halt as the country tried to contain the SARS virus that killed nearly 800 people. SARS soon petered out once the warmer spring weather arrived, and China's economy quickly recovered.

The global economy suffered barely any ill effects in 2003. Many analysts suspect a similar outcome this time around, but they are taking a wait-and-see approach for now, as COVID-19's death toll is already more than double that of SARS.

One big difference between SARS and the coronavirus is the mortality rate.



The coronavirus has killed an estimated 3% of the people afflicted (most of them 50 or older) compared to nearly 10% of SARS victims, according to the World Health Organization.

The coronavirus would have to become far more deadly to rival the mortality of even the common flu. In the U.S. alone, the flu and related symptons was believed to have caused about 61,000 deaths during the 2017-2018 flu season, the Center for Disease Control has estimated.

Market strategists point out that stocks typically recover quickly from highly publicized health scares or other natural disasters that have proven more deadly.

“We have plenty of historical evidence of the impact of events like plagues, floods, hurricanes and storms,” said Carl Weinberg of High Frequency Economics. “They disrupt activity for a short period and often substantially reduce current-period output. However, output is made up rather quickly in the subsequent periods.”

Researchers at other Wall Street firms such as Renaissance Macro Research, Oxford Economics and Glenmede Trust Co. have all found same pattern.

“Markets have largely shrugged off epidemic scares in the past,” according to Glenmede Trust Company’s Investment Strategy Team.

“History shows epidemics tend to have temporary impacts on markets,” Renaissance Macro said.

In the U.S., for example, the stock market fell as much as 15% during the SARS scare, but equities returned to their previous peak within several months.

Moody’s Analytics estimates the coronavirus could shave a tenth of a percentage point off the U.S,. economy in the first three months of 2020 if tough travel restrictions are imposed. For an economy growing about 2% a year, however, that’s a drop in the ocean.

So while there are (as usual) very differing views on the potential impact of COVID-19 on the global markets, history tells us that it will be just a blip and recovery is likely to be reasonably quick after the outbreak has been controlled.

However, it is still a little early to be completely sure and there is every possibility I may return to this subject again in the near future with an update.