



# Perspective on the Coronavirus

February 2020



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## History of Epidemics / Pandemics



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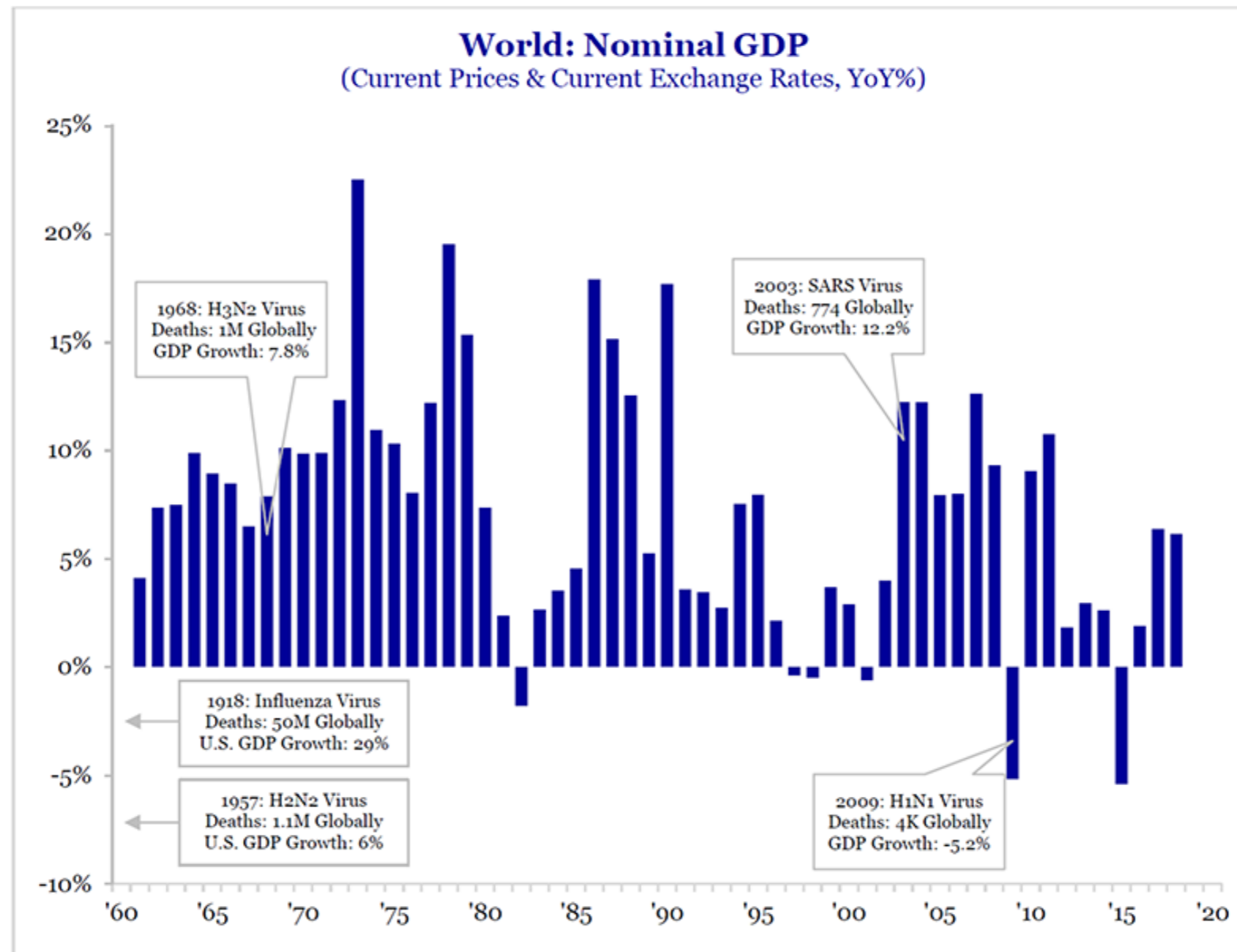
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Epidemic	Month Virus First Appeared	S&P 500 Performance +1 Months	S&P 500 Performance +3 Months	S&P 500 Performance +6 Months
West Africa Ebola Virus	Mar. 2014	0.0%	5.6%	6.5%
Avian Flu (H7N9) China	Mar. 2013	1.9%	2.9%	8.3%
MERS Coronavirus	Jun. 2012	3.3%	11.7%	9.2%
Swine Flu (H1N1)	Apr. 2009	3.8%	10.1%	30.1%
SARS Coronavirus	Nov. 2002	0.2%	-7.8%	4.8%
West Nile NYC	Aug. 1999	-5.8%	3.6%	0.6%
Avian Flu (H5N1) Hong Kong	May 1997	7.4%	11.2%	11.0%

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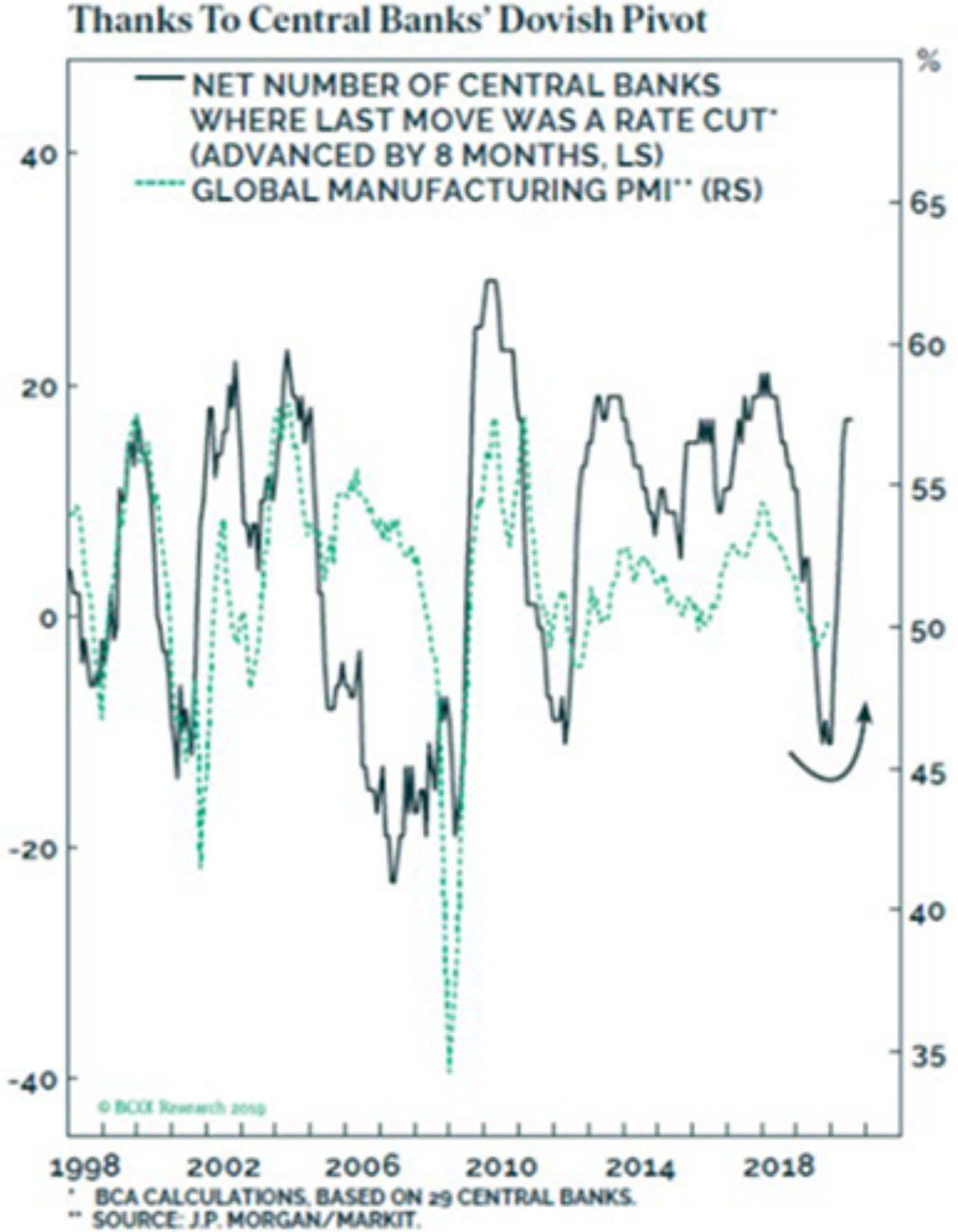
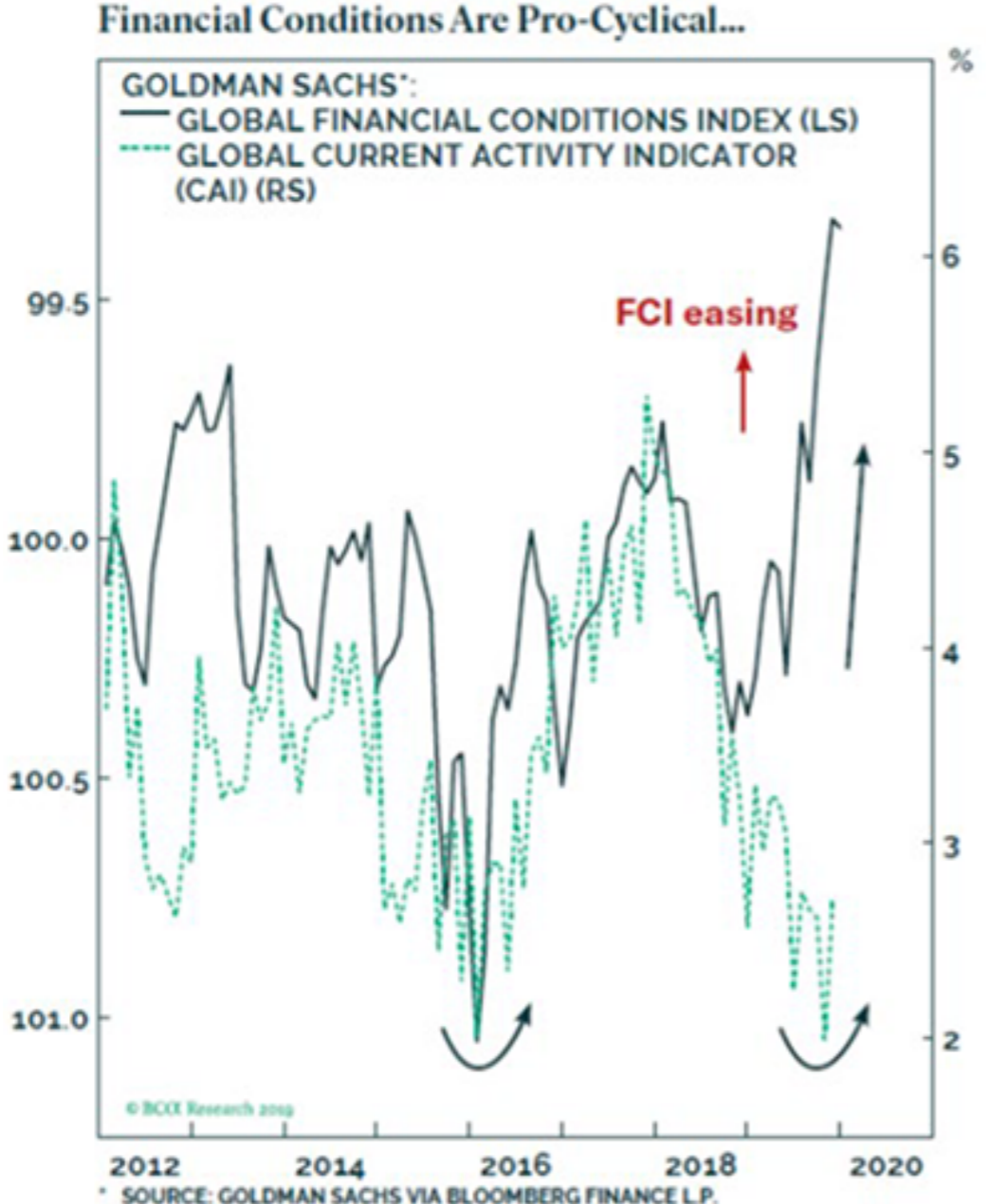
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Sources: Haver, Centers for Disease Control and Prevention

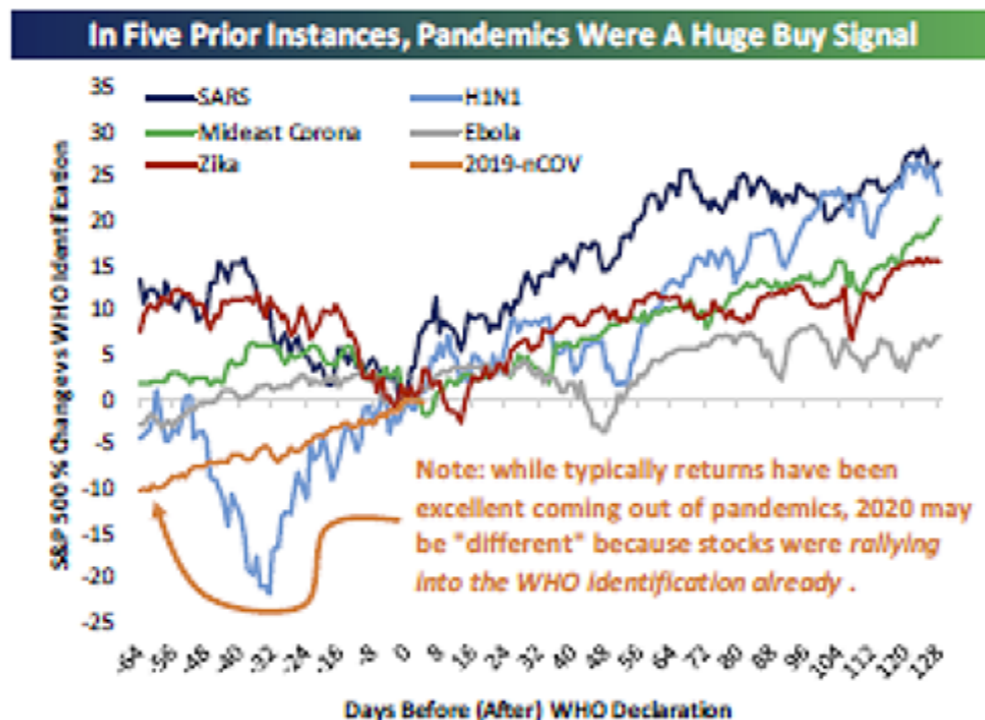
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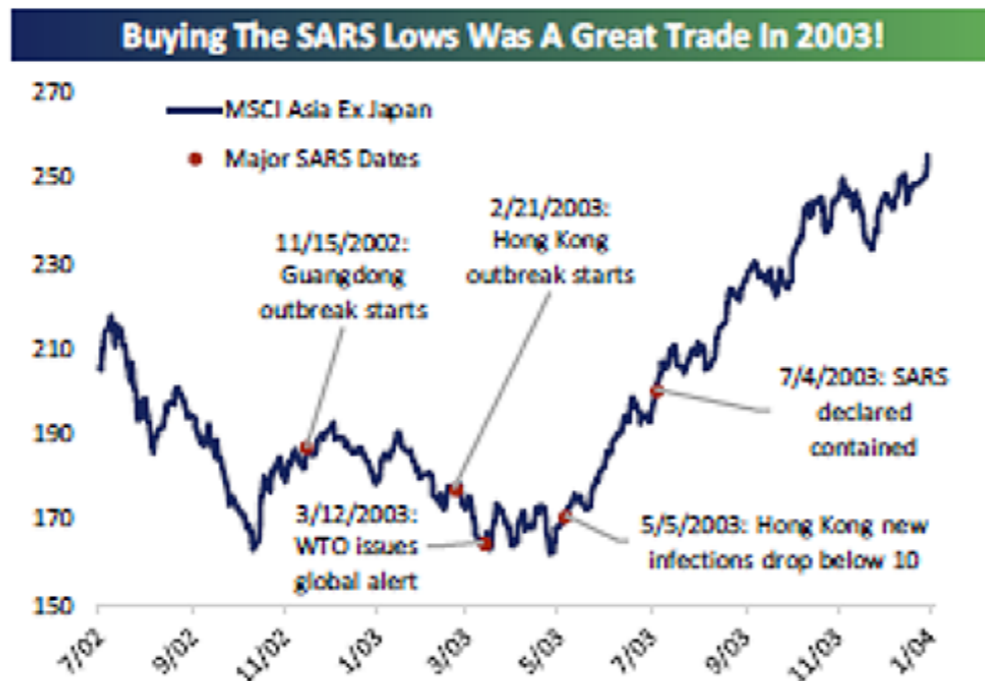


# Perspective on the Coronavirus

Markets have shown a tendency to overestimate the impact on GDP and global growth. Historically, markets and economies have recovered a quarter after the pandemic's growth rate slows.



- Ironically, other instances since the SARS outbreak in 2003 have been *amazing* buying opportunities for the US equity market.
- Of course, the S&P 500 was also down on the way into the start of prior periods of concern when the WHO or other authorities identified an outbreak of some kind or another; the opposite is true today.

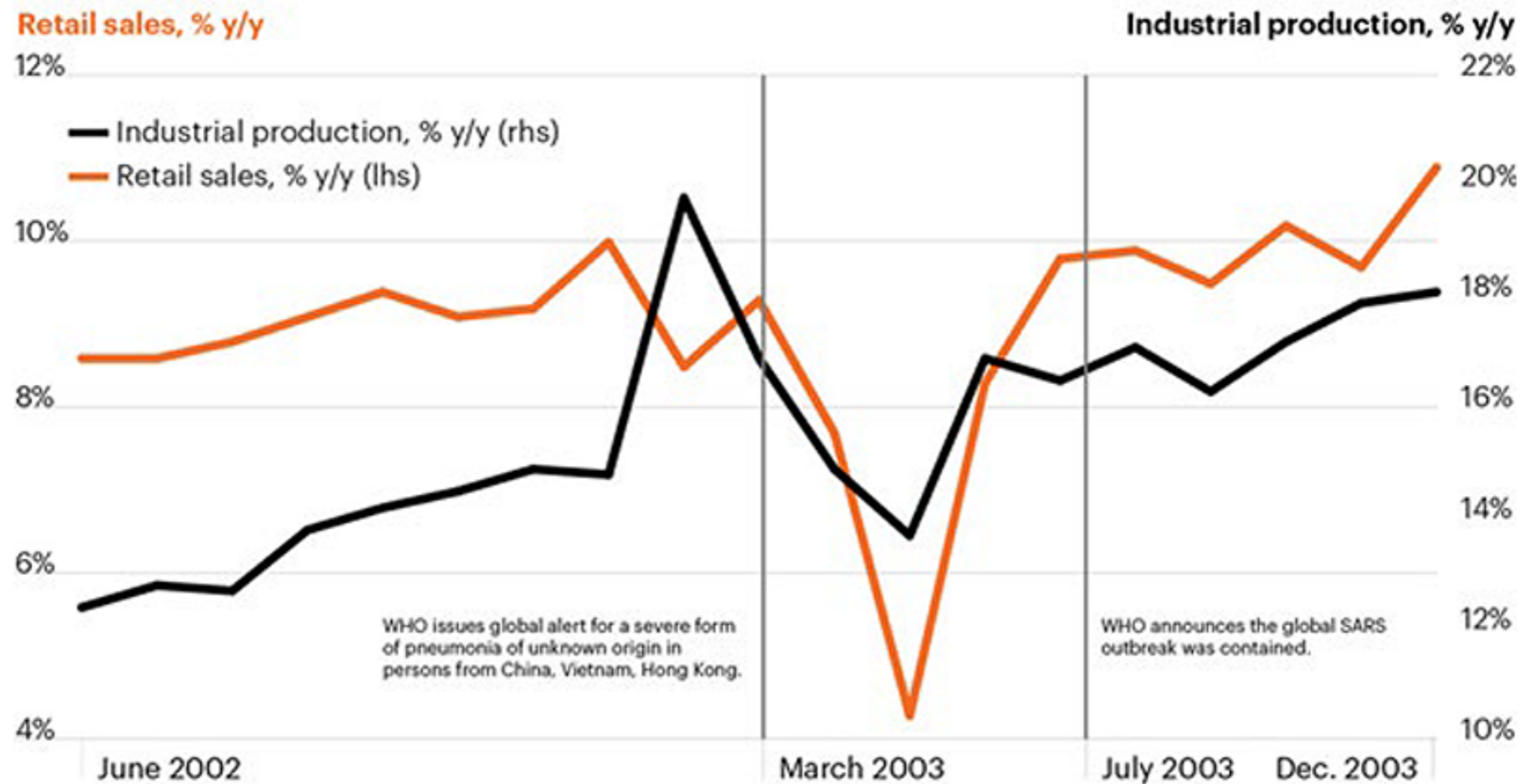


- SARS itself was also an incredible chance to buy stocks in that part of the world, almost perfectly bottom-ticking the selloff in APAC in the wake of the 2001-2003 bear market in stocks around the world.

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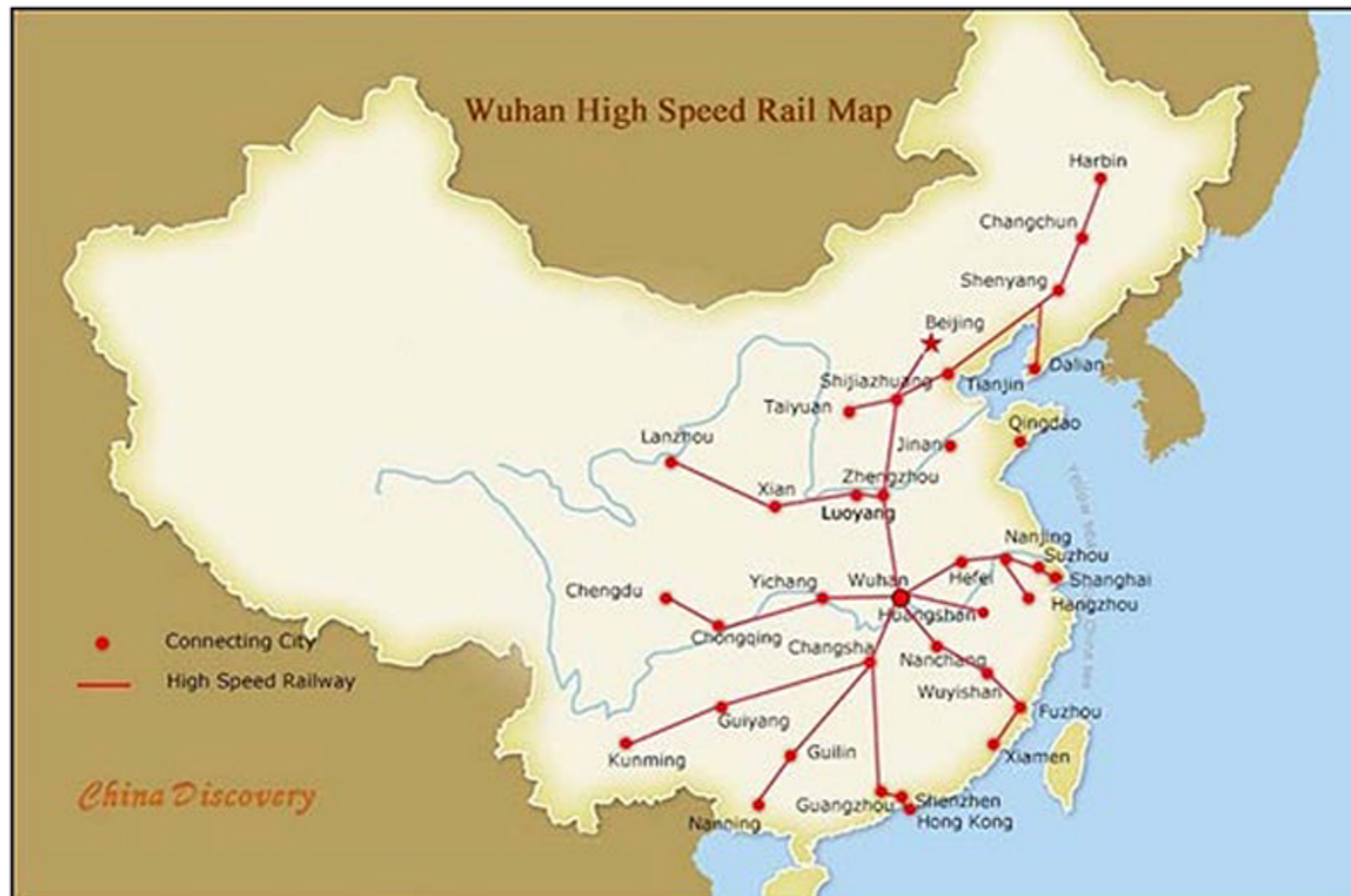
## SARS IMPACT ON CHINESE ECONOMY



Source: China National Bureau of Statistics, Macrobond, CDC and FS Investments.

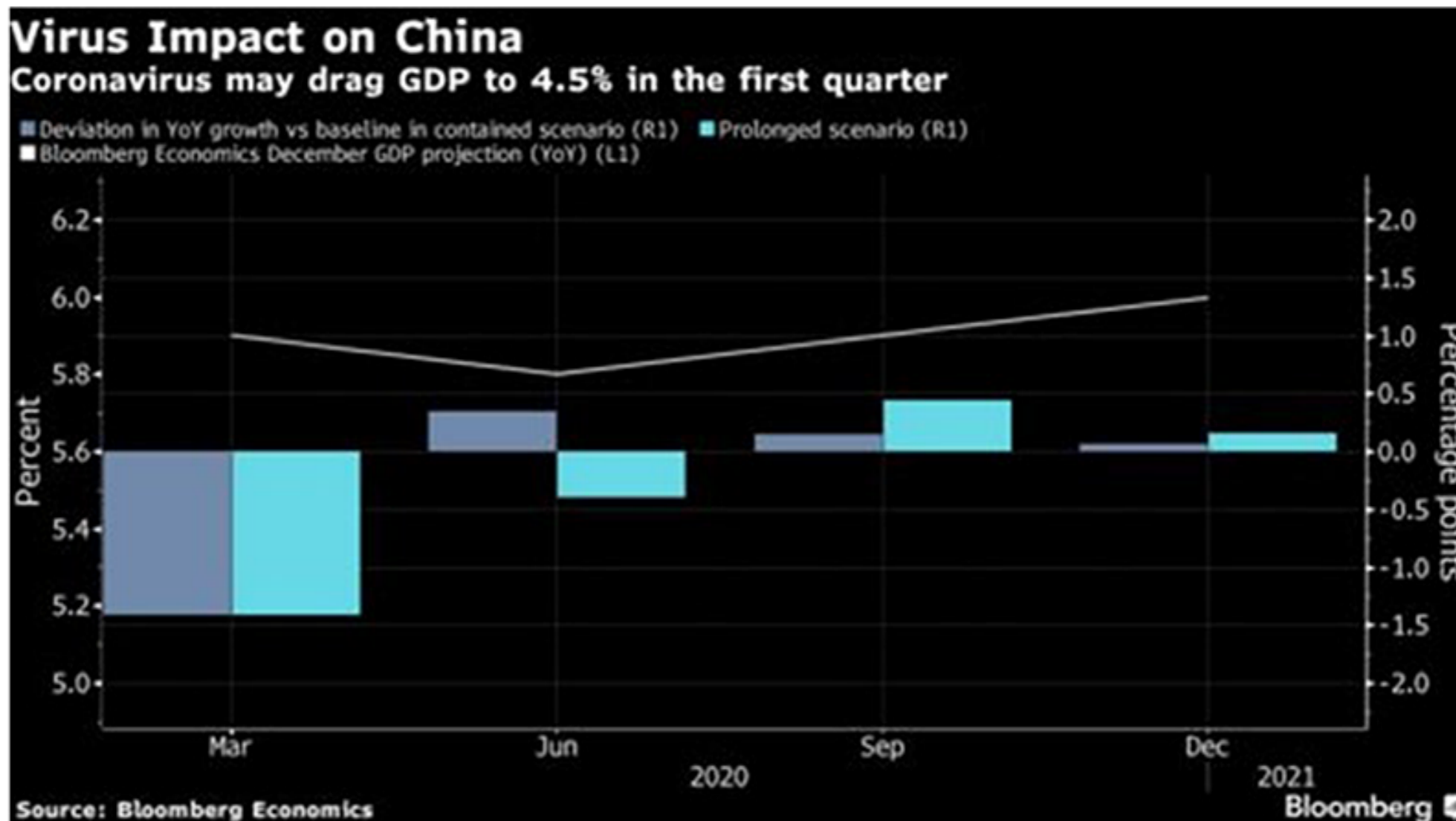
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- Is this time different? Wuhan was a central rail hub during Chinese New Year festivities.
- Goldman Sachs forecasts a 0.4% drag on US GDP for a quarter and the Street is forecasting a 1.5% hit to Chinese GDP this quarter. SARS represented a similar drag on the Chinese economy.
- Sources: Matthews, Bloomberg, Bianco Research.



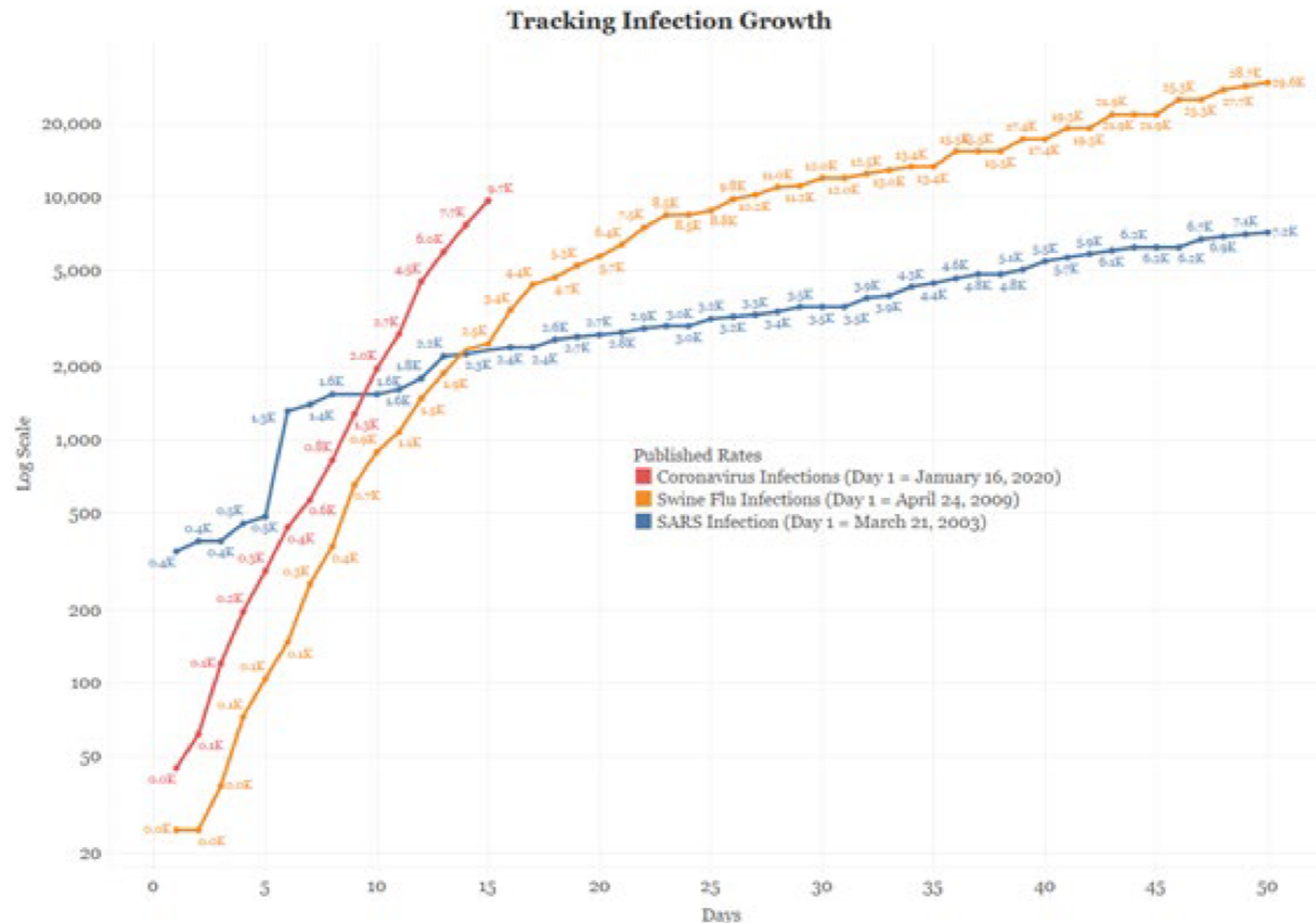
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Source: China National Health Commission Daily Reports  
<http://www.dzaspqr.net/health/sars/Total.html>  
[https://en.wikipedia.org/wiki/2009\\_flu\\_pandemic\\_table](https://en.wikipedia.org/wiki/2009_flu_pandemic_table)

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Source: China National Health Commission Daily Reports  
<http://www.chinapress.com/health/2020/01/2020012001.html>  
[http://www.singaporeair.com/en/in/2020\\_01\\_pandemic\\_update](http://www.singaporeair.com/en/in/2020_01_pandemic_update)

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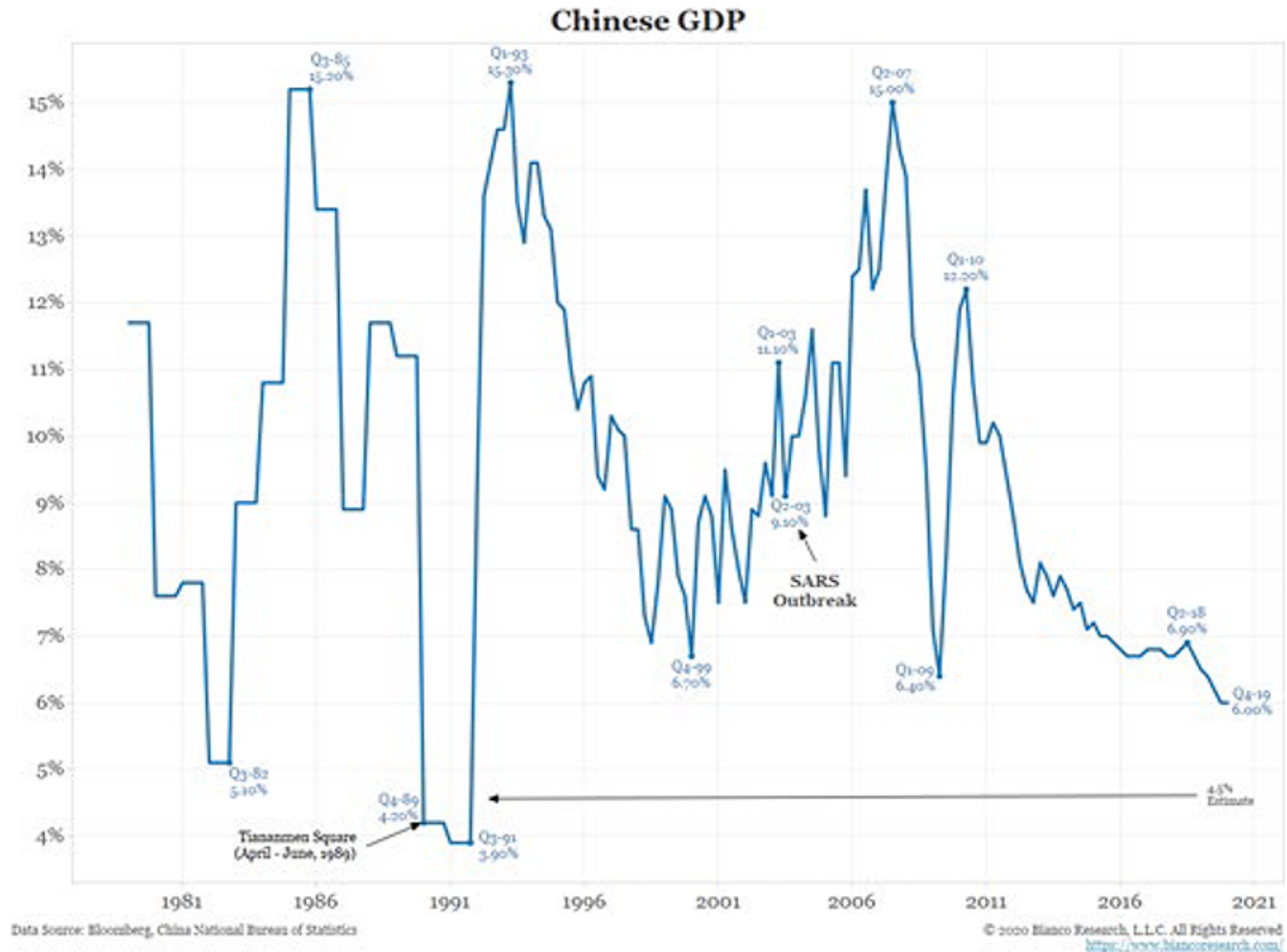
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## *Could this be more impactful than SARS?*

- **Economists' estimates currently show the coronavirus will have a smaller impact than SARS did in 2003. Many of these forecasts are predicated on the virus slowing in the next week or two.**
  - ▶ It is impossible to assess the true economic impact until the growth rate begins to subside.
  - ▶ So far, the mortality rate is reported at 2%, but this is extremely premature as some existing patients may yet succumb to pneumonia or related illnesses (for reference, SARS had a 9% mortality rate). While so far this virus looks to be less fatal, it does appear to be more contagious.
- **In 2003, the Chinese economy only accounted for 4% of world GDP and the US economy was 7.5x larger than China. Today China is 16% of global GDP and the US economy is only 1.5x larger.**
  - ▶ China's economy was on steadier ground in 2003—unlike today.
- **In 2003, global markets were in the nascent stages of recovery after a brutal recession, 50% equity decline over two years, and the aftermath of 9/11. Markets may be more vulnerable to selling pressure this time around:**
  - ▶ The virus news struck after a decade without a recession and the second longest bull market in the history of the US. Further, most market indicators were well overbought after a 30% year when the virus news hit.

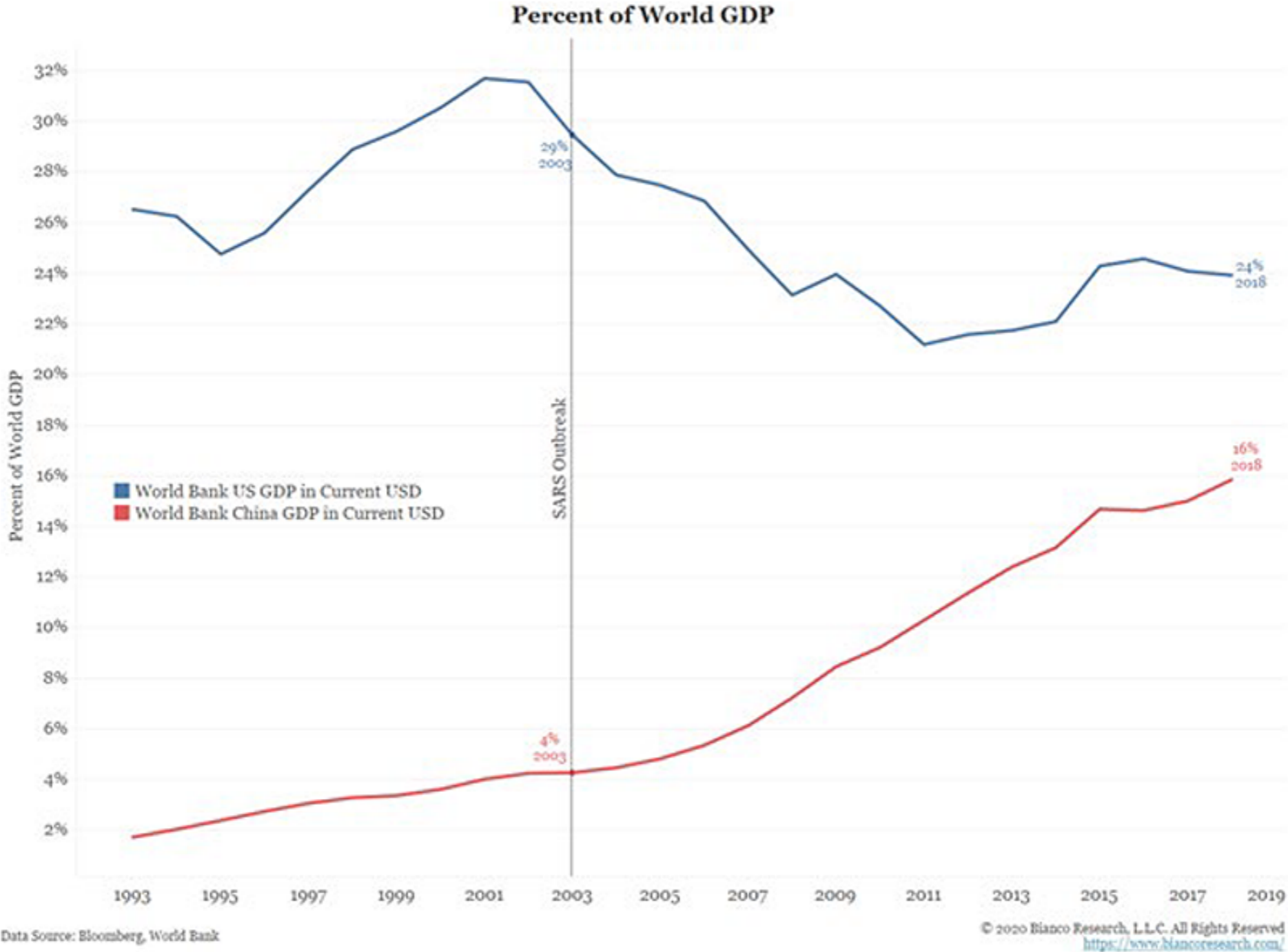
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## Summary

- Although there are short term negative reactions to epidemics, ultimately, the health of the global economy and magnitude of monetary & fiscal stimulus dictate the direction of equity markets.
- Markets have shown a tendency to overestimate the impact on GDP and global growth. Historically, markets and economies have recovered a quarter after the pandemic's growth rate slows.
- Goldman Sachs forecasts a 0.4% drag on US GDP for a quarter and the Street is forecasting a 1.5% hit to Chinese GDP this quarter. SARS represented a similar drag on the Chinese economy.
- It is too early to tell; however, the path appears similar to SARS and MERS, but could be more impactful than SARS.
- Economists' estimates currently show the coronavirus will have a smaller impact than SARS did in 2003. Many of these forecasts are predicated on the virus slowing in the next week or two.
- It is impossible to assess the true economic impact until the growth rate begins to subside.
- So far, the mortality rate is reported at 2%, but this is extremely premature as some existing patients may yet succumb to pneumonia or related illnesses (for reference, SARS had a 9% mortality rate). While so far this virus looks to be less fatal, it does appear to be more contagious.
- In 2003, the Chinese economy only accounted for 4% of world GDP and the US economy was 7.5x larger than China. Today China is 16% of global GDP and the US economy is only 1.5x larger.
- China's economy was on steadier ground in 2003—unlike today.
- In 2003, global markets were in the nascent stages of recovery after a brutal recession, 50% equity decline over two years, and the aftermath of 9/11.
- Markets may be more vulnerable to selling pressure this time around.
- The Coronavirus news has struck after a decade without a recession and in the midst of the second longest bull market in the history of the US. Further, when the virus news hit, most market indicators were well overbought after a 30% up year.



2 Jericho Plaza, Suite 208

Jericho, NY 11753

516.388.7980

[info@opalwealthadvisors.com](mailto:info@opalwealthadvisors.com)

[opalwealthadvisors.com](http://opalwealthadvisors.com)

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