

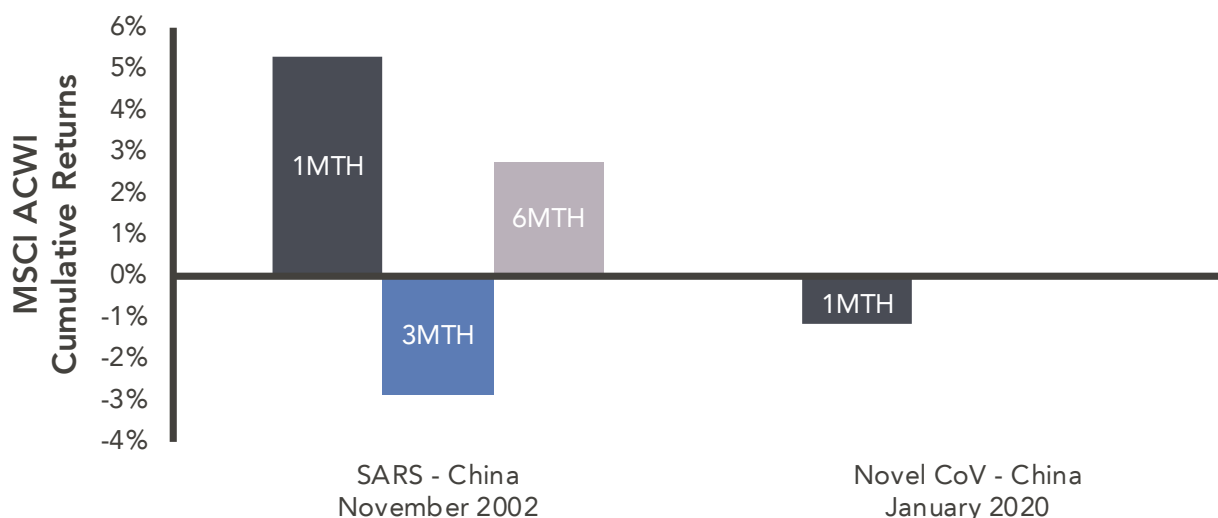
Chart of the Week

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Much Ado About Corona?

NICOLE JOHNSON-BARNES, CFA, RESEARCH ANALYST

Effect of coronavirus on global markets may be fleeting



Source: Bloomberg. Outbreak start dates determined according to U.S. Centers for Disease Control and Prevention and World Health Organization.

By now, you have all read the headlines and watched various news commentators detail the perils of the latest pneumonia outbreak, 2019 Novel Coronavirus ("nCoV"), impacting China, nearby countries, and a few of their western trade partners. As of February 13th, confirmed cases in mainland China had reached over 60,000 patients, and as was broadcast on February 11th, the death total has surpassed 1,000. Even though these health figures are alarming, we have experienced similar outbreaks in the past and can take some comfort in knowing that eventual containment — and a vaccine — are in the works.

From a financial market's standpoint, one common theme we are hearing from economists and portfolio managers is that, similar to the SARS outbreak of 2002–2003, the recent sharp, nCoV-driven market sell-off is temporary and the overall market impact will be minimal over the long-term. This chart of the week shows the short-term returns of the broader market — using the MSCI All Country World Index as the guidepost — during the SARS outbreak, as well as the current coronavirus. As shown in the chart, during the first three months of the SARS outbreak the MSCI ACWI posted a -2.9% return. However, six months after the initial SARS patient, the MSCI ACWI return was back in positive territory, up 2.8%.

While comparing SARS and nCoV makes sense from a regional and virus strain commonality, one must also consider the economic circumstances surrounding each outbreak. The supply chain connectivity between China and the broader world has advanced in leaps and bounds since 2003. The potential knock-on effects of an extended drop in Chinese factory productivity could slow, for instance, the technology supply chains for Apple, LG, Google, and more. Hence, economists are probably spot on that the market will rebound, but the details of the true impact on global growth are yet to be defined. ■

PREPARED BY MARQUETTE ASSOCIATES

180 North LaSalle St, Ste 3500, Chicago, Illinois 60601
CHICAGO BALTIMORE MILWAUKEE PHILADELPHIA ST. LOUIS

PHONE 312-527-5500
WEB marquetteassociates.com

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