

Coronavirus FAQ

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Is the new coronavirus similar to SARS in 2003?

COVID-19 (coronavirus) and Severe Acute Respiratory (SARS) are similar in that both are viruses that originated in China with no vaccines (at the time of writing). There are key differences, however, between the current coronavirus outbreak and the SARS outbreak of 2003. Notably, China, where the new coronavirus is currently concentrated, has grown to become the second-largest economy in the world today from the sixth-largest economy in 2003. China's economy is now integrated with all countries in the world and plays a key role in the global supply chain and as a consumer of foreign goods. Another difference is that Chinese citizens are traveling more frequently for leisure, work, and business. This makes it more likely for the virus, which originated in Wuhan, to spread outside of China. It is unsurprising, therefore, that markets are reacting to the spread of this virus as the issue has the potential to impact the global economy and is no longer remote.

Coronavirus also presents a containment challenge in that those infected can go weeks without showing symptoms, thereby increasing the likelihood that the infection will spread. The good news is that the mortality rate is low. In Canada, those earlier cases have been treated and patients eventually discharged from the hospital.

When will this end?

It is impossible to say for certain when this will end, or what the catalyst for eradication will be. SARS ended in the summer of 2003 as the virus did not survive in high temperatures. The new coronavirus doesn't appear to be affected by temperature as cases have been reported in warmer locations like Thailand, Singapore and the Middle East. However, it does not mean it will not die/disappear for other reasons.

Why are the markets reacting aggressively to this coronavirus outbreak?

Simply put, investors do not like uncertainty and equity markets are re-pricing lower as a result. The heightened fear is also evident in the premiums that consumers are willing to pay for face masks (\$2, versus the regular price of 40 cents). While there is undoubtedly a very human toll related to this outbreak, the issue is temporary. In terms of the global economy, there will no doubt be disruption as it

will require time for China to resume production. A lot of the pain will be felt by Chinese companies and in the Chinese credit market. Investors are expecting stimulus by the Chinese central government; we believe that a package is likely and we expect the size of the stimulus to be significant. Until we get more clarity on the impact of the virus and the stimulus response, we expect markets will remain choppy. Given the stock markets have already lost about 7% from the peak (as measured by the MSCI World Index as of Feb 26), we believe a lot of the bad news should be already priced in. Even if the markets fall another 7% from here, we expect that markets will rebound. In our view, there was more risk two weeks ago when the markets were making new highs and in spite of the spread of the virus.

What have you done in the portfolios?

As we watched the situation developing and believing that markets were underestimating the risk, we had reduced equity exposure across all portfolios prior to the “big drop.” Government bonds, gold bullion and foreign currencies have performed well and have helped to offset volatility in the equity portion of the portfolios. We see more value in Asia and the U.S. and less value in Canada, and we have done some rebalancing in selected portfolios. We remain cautious on emerging markets and China. We have ample cash to deploy and expect to add to our equity and/or real estate holdings in the coming days.

What advice would you give?

Coronavirus is still rare in Canada and the chance of infection is very low for those not travelling outside Canada to infected regions. From an investment standpoint, we see no reason to panic. You can be confident that we are closely monitoring client portfolios to ensure we are positioned to weather this storm.

Source: CI Multi-Asset Management

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