



February 11, 2020

GLOBAL PERSPECTIVE *from the Investment Advisory Group*

## Coronavirus: The Good, the Bad and the Unknown

Since mid-January, we have been monitoring the coronavirus, which is the deadly SARS-like virus that could have the potential to disrupt global economic activity. As of the writing of this note, over 42,000 people have been infected in 28 countries including China, and the death toll has already surpassed the 2003 episode of SARS.

### Looking Through the Crisis

Chinese factories are slowly getting back online, and many people in China are adjusting to a transitional new normal. If the coronavirus follows SARS' path, life in China will go back to normal—as if nothing happened—sometime in the summer months of 2020. We all hope that normalization arrives sooner rather than later.

### The Good

In an effort to slow the spread of the virus, China extended the New Year's holiday until Monday of this week. Businesses have started to open in China, albeit many with a limited scope. China's unprecedented efforts to slow the contagion partially worked, at least for the regions outside of the Hubei province in China and for the other countries in the world. So far, outside of China, there are only two fatalities related to the virus.

A US company developed an antiviral medication that shows promise, and China began enrolling patients in a clinical trial using this medicine. The first coronavirus patient in the US used the antiviral medication and showed a positive response. While these positive developments are by no means a victory against the coronavirus, they are elevating hopes globally.

Investors showed resilience by pushing stocks back to all-time highs, especially in the US, anticipating a strong V-shaped recovery when this is over. Stimulus efforts, particularly from China, are expected to be strong enough to mitigate the virus's negative effects.



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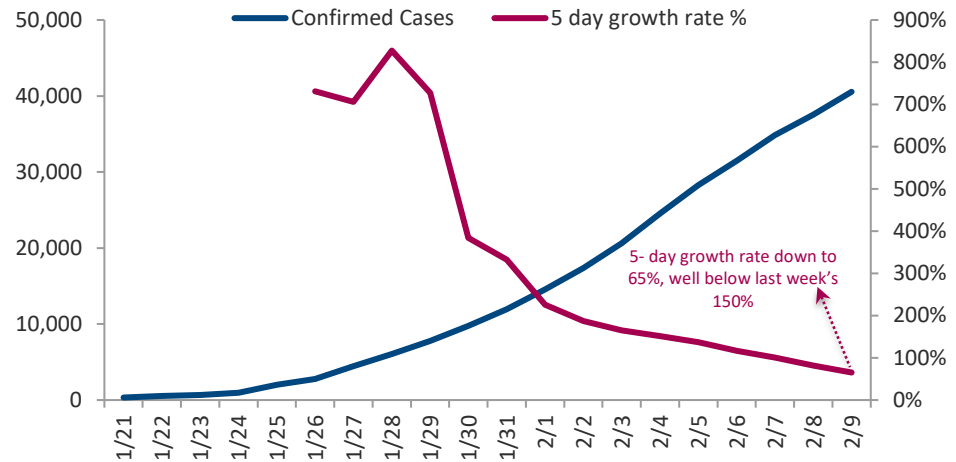
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The number of survivors of this deadly virus has surpassed the number of patients who have unfortunately lost their lives. Importantly, the growth rate of the spread of the virus has been slowing steadily (Figure 1).

**Figure 1: Globally Confirmed Coronavirus Cases and 5-day Growth Rate (%)**



Source: SunTrust IAG, Bloomberg

### The Bad

In comparing the potential impact of coronavirus to SARS, the coronavirus is seemingly much worse than SARS. As of today's writing, there have been more infections and deaths relative to SARS. The economic impact has the potential to be more severe compared to SARS as well. Relative to the 2003-SARS outbreak, the Chinese economy is more integrated with the global economy and is almost 10 times larger in terms of Gross Domestic Product.

The lockdown of almost 60 million people in the entirety of the Hubei province in China helped with the tracking and isolation of the contagion in Wuhan. Over the weekend, Singapore became another source of the virus as it spread in the UK and France after a conference attendee spread the virus to friends and family.

### The Unknown

Based on the confident price action in global equity markets, most market participants assume that there will be a sharp V-shaped recovery in Chinese economic activity. In 2003, it took many months for SARS to disappear from news headlines. Based on the severity of this episode, we can assume that at least the same amount of time, or possibly longer, may be needed to repair consumer confidence. SARS only affected the demand side of the equation, but the coronavirus is hitting the supply side as well by halting manufacturing lines

*Globally confirmed cases moved above 42,000 this week, surpassing 2003-SARS' infected figures. Slowing growth rates give hope to epidemiologists that we are closer to the peak in infections than we were last week.*



longer than originally anticipated. In addition, due to contagion fears, the number of passenger trips in China plunged 73% versus last year according to the Chinese Ministry of Transport.

The peak period of infection has not arrived yet, and it is hard to predict if it will peak in mid-February or in the following months. There are still many unanswered questions about how this virus spreads. If the mortality rate stays constant at around 2%, and if estimates are justified in anticipating a half-million infected, it could mean over 10,000 deaths.

### **And the Unknown-Unknowns**

In 2002, US Secretary of Defense Donald Rumsfeld coined the term “unknown unknowns” at a press conference during the second Iraq war. The Unknown-Unknowns are a valid fear here; we could have risks out there of which we are not yet aware. Usually, risk-averse investors allocate a budget for these types of uncertainties, and it is safe to assume that some of those budgets could have been upgraded recently.

### **Bottom Line**

As the coronavirus continues to spread across China and the globe, much of its impact remains unknown. The stimulus efforts from the Chinese government give us confidence that we will see a strong recovery in China, but the shape and timing of that recovery remains unknown. There is a healthy debate among strategists about the expected shape of the economic recovery in China when all this is over. It could be a V, L, U or a W-shape with the last one referring to secondary shocks once the first shock fades. The National People’s Congress (NPC), the meeting that defines Chinese economic priorities and targets, is scheduled for the first week of March. Authorities will have unfettered access to fiscal policy, monetary policy and much more via control of Chinese state-owned enterprises. Outcomes from the NPC meeting should give us a better understanding on how all of this will unfold.



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CN2020-0368 EXP12-2020