

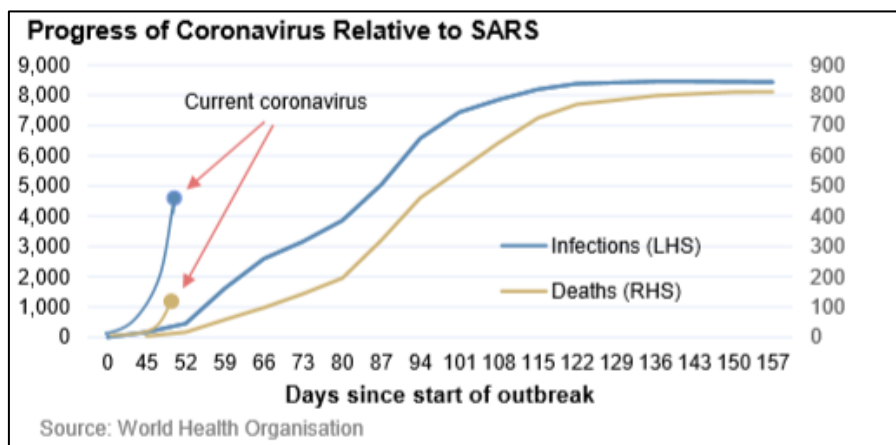
## IWIinvestor View: Coronavirus Market Impact

### Coronavirus (COVID-19)

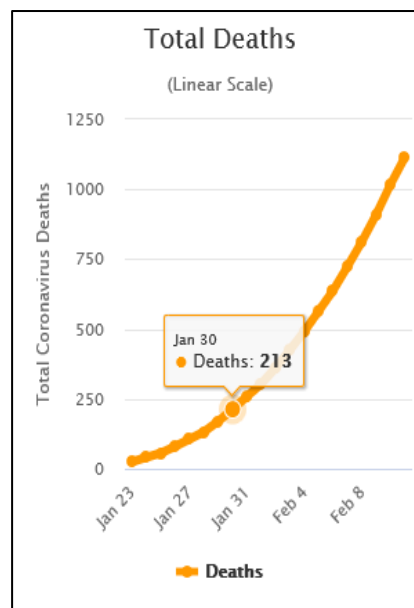
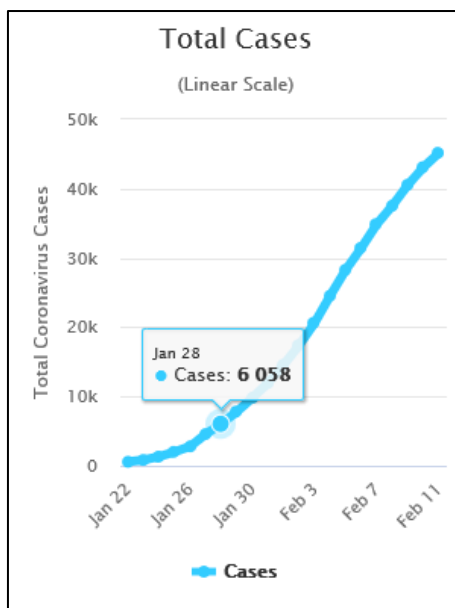
Coronavirus has significantly added to the uncertainty on the outlook for global health and the global economy. The Chinese economy will bear the brunt of the virus but the global economy will be impacted by trade, tourism and supply chain disruption. As with previous virus strains, this is likely to take months to resolve and the infection is spreading relatively faster but with a lower mortality rate than SARS.

The initial response from the financial markets was appropriate with share markets weakening and bond yields receding but the impact of the virus is now being ignored. The extent of the disruption to the global economy will depend on the duration of its tenure. Politicians have reacted and central banks are watching.

Numbers of reported infections and deaths from coronavirus have exceeded the SARS outbreak in 2003. Coronavirus is spreading faster with a lower mortality rate. Due to greater reliance on Chinese visitors and exports to China, the current outbreak is likely to have a larger impact on the New Zealand and Australian economies than SARS did.



Note: LHS = left hand side axis; RHS = right hand side axis



Source: Worldometers.info



## Comparisons

- Every year an estimated 290,000 to 650,000 people die in the world due to complications from seasonal influenza (flu) viruses. This figure corresponds to 795 to 1,781 deaths per day due to the seasonal flu.
- SARS (November 2002 to July 2003): was a coronavirus that originated from Beijing, China, spread to 29 countries, and resulted in 8,096 people infected with 774 deaths (fatality rate of 9.6%). Considering that SARS ended up infecting 5,237 people in mainland China, Wuhan Coronavirus surpassed SARS on January 29, 2020, when Chinese officials confirmed 5,974 cases of the novel coronavirus (2019-nCoV). One day later, on 30 January 2020, the novel coronavirus cases surpassed even the 8,096 cases worldwide which were the final SARS count in 2003.
- MERS (in 2012) killed 858 people out of the 2,494 infected (fatality rate of 34.4%).

Source: *Worldometers.info*

## Other comments

Below we have brief comments from Aaron Drew (MyFiduciary) and excerpt from the Reserve Bank of New Zealand media release on the Official Cash Rate.

### Aaron Drew (My Fiduciary)

It has materially affected activity in China, with estimates suggesting Chinese GDP growth for the March quarter will be around 1% weaker. In turn, this has had a material impact on the global tourism and commodity sectors, given the impact on the demand for logs and fisheries. It is also, of course, a tragedy for Wuhan and people who have lost loved ones to the virus.

But as of mid-February, listed markets themselves have largely been immune (excuse the pun), with US equity indexes reaching new highs at the close yesterday. As such, the value of listed portfolios is also higher than what was reported for the end of December. This is because, to date, the risk of a prolonged global pandemic is assessed as low; and in the meantime, corporate earnings and economic growth indicators have tended to come in stronger than expected, particularly in the US. Instead, the markets' current view is that the Coronavirus will be another type of flu that will hit seasonally and can be well managed through the development of an effective vaccine. On this point, scientists have already established the DNA of the virus, and have begun human trials of a vaccine. Given normal testing and approval processes, it is expected mass vaccines could be developed within a year. This risk assessment could still change for the worse and we are keeping an eye on developments.

### Reserve Bank of New Zealand

The global economic environment has shown signs of stabilising and trade tensions have receded somewhat. However, the COVID-19 (coronavirus) outbreak is an emerging downside risk. We assume the overall economic impact of the coronavirus outbreak in New Zealand will be of short duration, with most of the impacts in the first half of 2020. Nevertheless, some sectors are being significantly affected. There is a risk that the impact will be larger and more persistent. Monetary policy has time to adjust if needed as more information becomes available.

*Reserve Bank of New Zealand News Release, 'Official Cash Rate remains at 1.0 percent', 12 February 2020*

### Our Investment Philosophy

No one knows what the future holds. However, we have seen over the past hundred years or more, that the global economy, in the long run, is growing which offers rewards for investors in a volatile manner. Consequently, our clients need to maintain a diversified portfolio based around their risk profile. We continue to monitor developments on Coronavirus.

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