

IWIinvestor View: Coronavirus (COVID-19) Market Impact - Update

Commentary from MyFiduciary

The virus news has gone from bad to worse and we thought it might be useful for you to get a further update. As you know, cases of infection have spread to many other parts of the world, including in New Zealand. So far it has infected around 85,000 people and 3,000 people have died, with most fatalities being in China.

In response, the virus is now classed as a pandemic and equity markets, which were resilient to the risk in January through to mid-February, sold off sharply over the past week. Their concern is that the spread will cause larger and longer interruptions to economic activity and supply chains, denting corporate earnings and potentially the ability of corporates to service their debt obligations.

But the consensus view from most economists is that the outbreak is still likely to have a temporary effect. Activity is expected to bounce back in the second half of this year as the virus wears itself out.

No one can be precise about this, but one thing we do know is that the virus is well understood and vaccine trials are already underway. We also know that it is only with the recent rise in computing power and gene sequencing technology that such a virus can be identified. As little as 20 years ago such a virus would have gone unnoticed and chalked up to a "bad flu season".

In addition, central banks have already signalled they are willing to cut rates as needed. We don't expect that this will positively impact supply chains (which are being interrupted from people keeping away from their place of work), but it should on the margin improve household confidence and boost asset prices.

Additional commentary from IWIinvestor

This graphic illustrates the market impact following several world epidemics since 1970. On average the market recovered 8.5%, 6 months after the outbreaks. This information was sourced from <https://www.marketwatch.com/story/heres-how-the-stock-market-has-performed-during-past-viral-outbreaks-as-chinas-coronavirus-spreads-2020-01-22>

Immune: world epidemics and global stock market performance



Our Investment Philosophy

Your portfolios are managed with a long-term horizon objective, and the current fall in its value should not dent these longer-term prospects. The volatility itself may prompt a need to re-balance if it causes asset classes to move outside their approved tolerance ranges. We continue to monitor developments on Coronavirus.