Benefit Financial Services Group

CLIENT ALERT - CORONAVIRUS

The S&P 500 is down 3.1% from its all-time high on January 17th due to global concerns that the coronavirus (2019-nCov) is spreading and how this will affect global growth (equity markets react unfavorably to the unknown). As of February 1st, there have been 11,953 confirmed cases according to the World Health Organization. However, the majority of these cases are in China (11,821) and still largely centered around Hubei Province. So, while the virus is spreading, it is largely concentrated in China. Of the 132 cases identified outside China, 101 had traveled to China in the 14 days before illness onset and 14 were due to secondary transmission outside China (Source: WHO).

The most recent reports as of February 1st, indicate there have been approximately 304 deaths due to the virus which is a 2.5% fatality rate, while SARs and MERS (similar viruses that have their origins in bats), had fatality rates of 9.5% and 34.5%, respectively. Whereas, influenza has over 15 million cases and has caused 8,000 deaths in the U.S. alone this winter.

In 2003 – the year that the SARs epidemic was first reported – Chinese economic growth and the stock market fell significantly in the short-term but then subsequently rallied strongly for the remainder of the year. Back then China was only 4% of global economic activity and today it is closer to 18%, therefore the impact globally could be much larger. Morgan Stanley is estimating that the coronavirus could cut global economic growth by up to 0.3% in the 1st quarter and slightly more in the 2nd quarter if it were to worsen. However, China is showing greater commitment and being proactive in working with the global health community compared to how they handled SARs.

Some caution is warranted because it is impossible to predict how an epidemic caused by a new virus will turn out, but those precautions should mainly include taking proper health measures. In investment terms, it is hard to mitigate the effects of events such as pandemics or war. Equity markets react unpredictably to the unknown; nevertheless, such events should not be examined in isolation, but viewed in common with other prevailing market conditions – the U.S. economy is growing above-trend (+2.3% for 2019) and 2/3rds of S&P 500 companies that have reported results for the 4th quarter thus far have topped earnings estimates.

At such times, investors should remember the benefits of long-term investing and staying focused on your long-term goals during periods of volatility and uncertainty.

So, we will leave you with some basic tips from the WHO and CDC:

- Get the flu vaccine;
- Frequently clean your hands by using alcohol-based hand rub or soap and water;
- When coughing and sneezing cover your mouth and nose with flexed elbow or tissue – throw the tissue away immediately and wash hands; and
- Avoid close contact with anyone who has a fever and cough.

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