

# MACRO MUSINGS

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## Novel Coronavirus Outbreak

After rallying by almost 15% since the beginning of October, global share prices have started to move in reverse. Concern about the Novel Coronavirus outbreak which began in China has weighed on prices, forcing them ~2.5% lower from the peak level set on January 20<sup>th</sup>. Investors are, at this stage, uncertain as to how much damage this virus might inflict on global economic and corporate earnings growth.

The latest data show that 4,474 cases of Novel Coronavirus have been confirmed, with 107 associated fatalities (live tracking is found [here](#)). This represents more than a 13-fold increase from the level recorded a week earlier. At this stage, 1.4% of those confirmed cases have been reported outside of Mainland China spanning 15 countries.

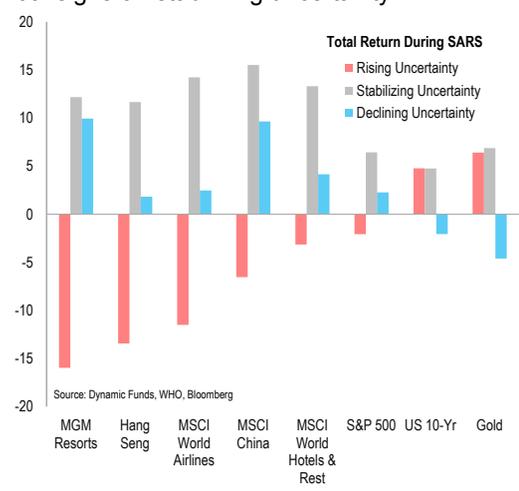
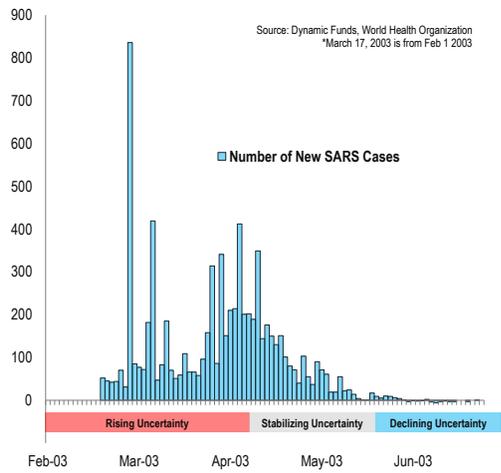
People are comparing this latest event to the 2003 outbreak, starting in southern China, of Severe Acute Respiratory Syndrome (SARS). That disease resulted in an eventual 8,096 cases and 774 deaths, reported by seventeen countries. The human and economic costs were relatively low. The environments framing the 2003 and current outbreak are different. From the standpoint of an economist, China is four times more important representing about 16% of global GDP today versus 4% in 2003. The economic impact from the current outbreak could therefore be larger. Not only that, the spread – at least within China – could be more severe given the increased density (i.e., urbanization) and connectivity (e.g., road, rail and air) of the Mainland population over the past 15 years. The world has also become much more connected. Yet, health care workers have better technology with which to track, treat, and contain a spread today. More than 50 million people already have been quarantined in China over the past few days, as just one example.

Financial market dynamics during past outbreaks such as Zika, Ebola, SARS or the Avian Flu have followed a particular rhythm: Equity markets have been down, over relatively short periods of time, by somewhere between 5-13%; Riskier assets (e.g., equities) underperform their more defensive counterparts (e.g., bonds); And, the closer an asset is to its viral epicenter (e.g., Chinese equities, or Casino, Airline and Hotel stocks), the worse it does. The behavior seen within and across the financial markets this time around is following the historical script quite closely.

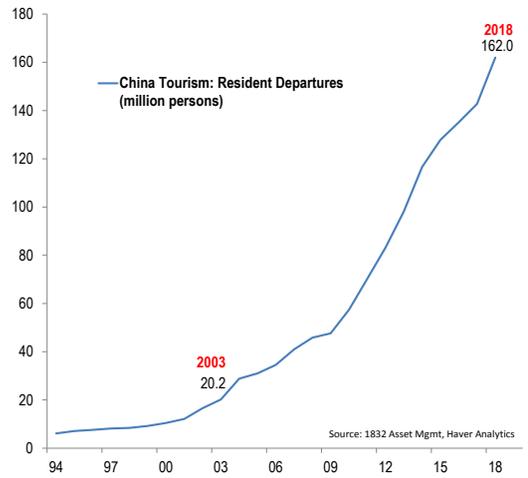
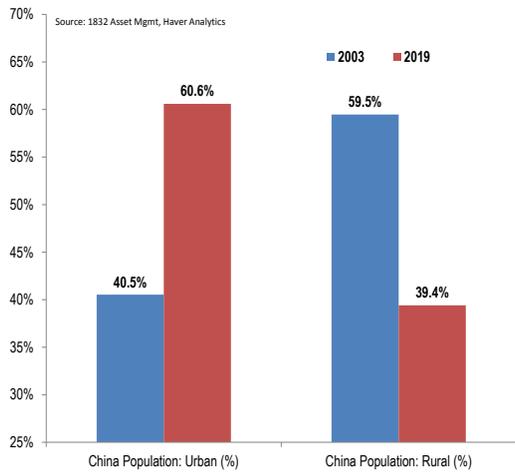
Yet, a lot is still unknown about Novel Coronavirus at this early stage. There are strong debates among virologists and epidemiologists about its incubation period, transmissibility and fatality rate. So, how are we supposed to know when a turn in favor of those hardest hit assets is likely to begin. One fairly reliable sign has been when the number of new cases begins to moderate. This was just as true for the EBOLA outbreak as it was for the SARS outbreak. For the Novel Coronavirus, the number of new cases has been growing larger but once they begin to moderate, we are likely to begin to see the start of a rotation back into the hardest hit areas of the financial markets.

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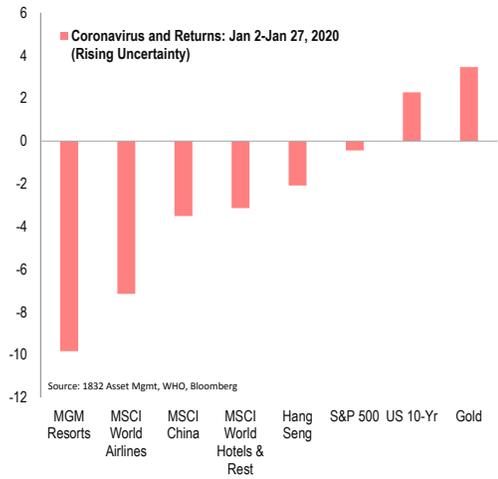
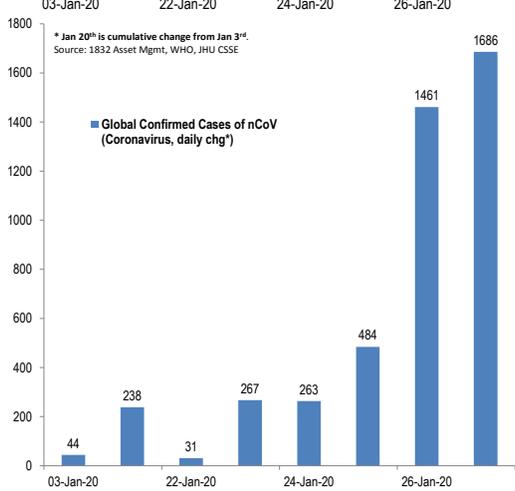
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