

CORONAVIRUS AND MARKETS

The following is an update on the coronavirus, now called COVID-19. We are keeping a close eye on the pandemic which has migrated over the last few days. Fears in the financial markets have heightened, wary of any further escalation of outbreaks, however we remain unconcerned from a long-term investment perspective.

WHAT'S CAUSED THE LATEST MARKET SELL-OFF?

- While the growth trajectory in China has slowed, there have been additional outbreaks:
- South Korea has gone from a handful of cases to 833 in less than a week.
- Iran has reported 12 deaths and 47 cases, a higher mortality rate than an expected 1%, suggesting much larger numbers there .
- Italy has had a break-out originating with a 38-year-old man who has not travelled to China and has no obvious connection to the virus.
- These outbreaks are concerning but not unexpected; the degree to which it can be contained remains to be seen.

MARKET REACTION AND UPDATED SARS COMPARISON

Although no event is the same, looking at the 12-month impact of SARS on investment markets may provide some comfort in amongst today's noise.

Index	2003 performance	SARS outbreak to low	low to year end
MSCI ACWI Index	31.6%	4.7%	31.4%
Hang Seng Index	34.9%	-7.9%	49.6%
S&P/ASX 200 Index	9.7%	3.1%	10.9%
S&P/NZX 50 Index	25.6%	2.4%	24.2%

Source: Bloomberg, MSCI. Outbreak date February 6, 2003. "low" is the low of the Hang Seng index.

INVESTMENT THOUGHTS

- Local markets sold off hard yesterday and then rebounded. This volatility will continue whilst there is short term uncertainty.
- Markets have likely over-reacted to the risk of the virus spread.
- Ultimately, we see further downside being underwritten by renewed monetary policy easing and potential fiscal stimulus (signalling).
- We have yet to see the peak of the outbreak, but the virus is not structurally impairing businesses and their fundamental earning power will return once the virus passes, or, in the worst case scenario, the world gets used to living with the virus like it does with the flu.

Our investment portfolios are constructed with just this sort of thing in mind. In the short term this over reaction is certainly a buying opportunity, and long term we see little change to the fundamentals of investment markets. We will keep one eye on events and if there is a need for any action in the future we will be in touch.

A final word... below is a chart highlighting some of the unexpected events over the past decade and the effect on the S&P 500. In other words, take the long view because we cannot accurately predict the short term.

Reasons to Sell



Data Source: StockCharts.com. S&P 500 Total Return