

## CORONAVIRUS FEARS RATTLE GLOBAL MARKETS

### *What you need to know*

Over the weekend, new cases of Covid-19 (coronavirus) were announced in South Korea and Italy, bringing the total number of infected to approximately 79,500 announced cases. The number of fatalities continues to increase and stands at approximately 2,600 cases globally. While the virus has spread to 19 countries, 97% of the infected cases and fatalities are localized to specific China provinces. Since the first news of the virus broke, global equity markets have remained resilient, expecting that the economic impact from disrupted supply chains and soft consumer spending will be short and economic growth will accelerate in the second half of 2020. With the recent spread of Covid-19 to the open-border Eurozone, global equity markets are re-evaluating that thesis and showing the first real signs of stress in over 15 months. There is still a great deal of uncertainty on what the impact will be to public health and global economic output. While any health emergency is an unfortunate and tragic human event, we believe it is an appropriate time to add historical context to the outbreak.

#### **Zooming Out**

The World Health Organization (WHO) declared novel coronavirus a Public Health Emergency of International Concern on January 30, 2020. Such a declaration helps marshal resources, raise public awareness and potentially impact public travel to prevent spread of such a virus. This declaration makes Covid-19 one of nine disease outbreaks currently classified as an emergency by the WHO across 34 countries. Examples of other diseases currently classified as emergencies include cholera, Ebola and polio, which all affect thousands of people across the globe. Information such as this often comes as a surprise to individuals located in a developed nation such as the U.S. For perspective on an illness and disease more familiar to U.S. citizens, influenza (more commonly known as the flu) has infected an estimated 22–31 million people in the U.S. from October 1, 2019 through February 1, 2020<sup>2</sup> leading to an estimated 12,000–30,000 deaths in this flu season alone<sup>2</sup>. Another prolific disease in the U.S., cancer, took over 600,000 lives of people who lost their battle with the disease in 2019<sup>3</sup>. While Covid-19 is becoming a global crisis, perspective does help establish the appropriate level of concern and response that is warranted despite the frequent and eye-catching headlines in the news today.

#### **COVID-19 ESTIMATES<sup>1</sup>**

**Infected: 79,500  
Fatalities: 2,600+  
# of Countries: 19**

#### **What about the Economy and Financial Markets?**

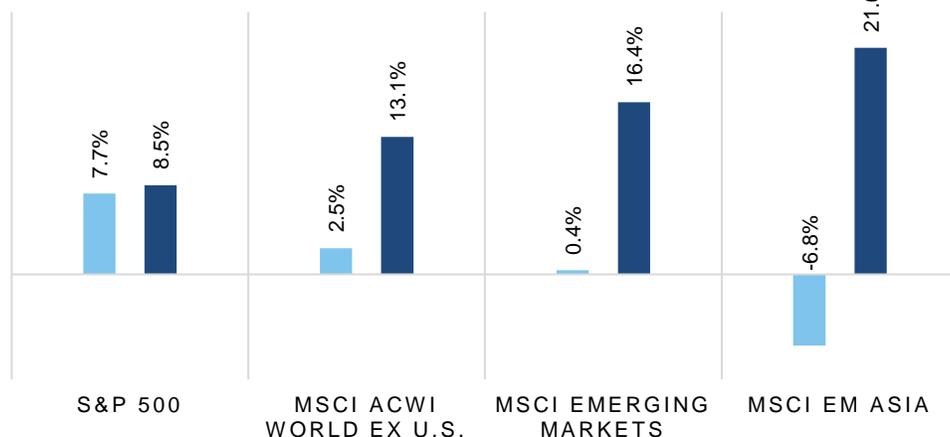
A historical review of similar scenarios where unexpected illness impacted the economy is hard to discern. Any reading of economic data during past periods like SARS (Severe Acute Respiratory Syndrome) in 2003 and MERS (Middle East Respiratory Syndrome) in 2012 cannot give us a precise picture of its impact. The simple fact is many factors are also influencing the economy at the same time. For example, in 2003 along with SARS the U.S. went to war with Iraq and a 6.3 Richter scale earthquake hit Iran killing over 20,000 people. These events along with other traditional economic forces also played a role in global economic outcomes.

Likewise, there are extenuating circumstances that could exaggerate the impact from this most recent outbreak. First, Chinese public health officials began restricting travel to limit the spread of the virus over the Chinese Lunar New Year, a period in which travel and holiday spending often occurs. This could have a larger influence on a drop in consumption than if this event took place another time in the year. Second, is the size and integration of China's economy. In 2003 during the SARS outbreak China as percentage of global GDP was approximately nine percent, but has now grown to approximately 19 percent<sup>4</sup>. In addition to its relative contribution to global GDP, China is the manufacturing and supply chain epicenter for many global industries. The technology sector is a strong example of U.S. dependence on China for assembly and production. Despite the greater significance of China, we believe financial markets will overreact to the fundamental impact of Covid-19 on businesses and long-term corporate cash flows. This creates the opportunity for investors to take advantage of short-term fear should it persist. While financial markets will eventually move past the dislocation, the virus comes at a difficult time for China leadership as it follows a tumultuous period of tariff negotiations that left many corporate executives questioning their long-term commitments to China. We believe the rising discontent may prove more concerning and impactful to the Chinese economy in the decade ahead.

While the situation is evolving, there are parallels that can be drawn from the SARS virus as a historical precedent. Below we highlight the performance of specific markets in 2003 during periods of rising and falling concern related to SARS.

#### EQUITY PERFORMANCE DURING SARS OUTBREAK<sup>5</sup>

- Rising Concern (3/3/2003 - 4/25/2003)
- Falling Concern (4/25/2003 - 6/25/2003)



The time period of the impact was relatively short for SARS and the subsequent recovery was strong. We think this is indicative of the actual impact on the economy during the SARS outbreak. While the market's response to SARS may elicit comparisons, it is worth noting that the U.S. economy was exiting a difficult time period in 2003 and equity valuations were more forgiving of economic shocks. We do believe the SARS virus is a relevant comparison to the path and

impact that Covid-19 is likely to have on global economies and markets. The market's response, especially domestically, is likely to be more severe given the China dependence highlighted above.

We recognize the heightened concern that such events and headlines can cause and do not want to understate the impact that Covid-19 has had on the individuals, families and communities affected by this virus. However, we hope to draw context to its likely limited long-term impact on the global economy and markets. We have written about our expectation that volatility will be notably higher in the years ahead as valuations leave less room for uncertainty, and central bank policies are nearing the end of practical limits. Through our emphasis on asset class diversification and quality investments in fixed income and dividend-paying equities, we believe client portfolios are well positioned to weather the volatility. **We will continue to monitor the situation closely and will provide updates as necessary, though at this time we generally see no need to make changes to investment portfolios as a result of this outbreak.**

- 1 <https://www.worldometers.info/coronavirus/coronavirus-cases/>
- 2 <https://www.cdc.gov/flu/about/burden/preliminary-in-season-estimates.htm>
- 3 <https://www.cancer.org/content/dam/cancer-org/research/cancer-facts-and-statistics/annual-cancer-facts-and-figures/2019/cancer-facts-and-figures-2019.pdf>
- 4 Capital Economics – Global Economic Update
- 5 Bloomberg

## ABOUT EDGE CAPITAL

Edge Capital is an independent financial firm whose objective advice helps individuals and institutions realize their investment management goals. The Edge Strategy Team’s thoughtful and timely reports are based on extensive independent research and analysis of firms, financial developments, and macroeconomic trends.

For more research and commentary, visit us online at [www.edgecappartners.com](http://www.edgecappartners.com).

## CONTACT EDGE

1380 West Paces Ferry Road  
Suite 1000  
Atlanta, GA 30327  
Phone: 404-890-7707  
Email: [info@edgecappartners.com](mailto:info@edgecappartners.com)

This material represents the views of Edge Capital Group, LLC. This information is provided to discuss general market activity, industry or sector trends, or other broad-based economic, market or political conditions. This information should not be construed as research or investment advice, and investors are urged to consult with their financial advisors before buying or selling any securities. This information may not be current and Edge Capital Group, LLC has no obligation to provide any updates or changes to such information. This material contains forward-looking projections and there is no assurance that these projections will prove correct. Past performance is no guarantee of future success and there is the possibility of lower returns or the possibility of loss.