CORONAVIRUS CONTAGION FEARS DRIVE GLOBAL STOCK MARKETS SELLOFF

News that the Coronavirus (Covid-19) is spreading outside of China, has caused investors to hit the panic sell button. With Covid-19 not yet contained, the economic damage continues to spread from China and across multi-national companies in the airline, hotel, cruise, casino, entertainment and logistics sectors. Ripple effects are likely to be felt across all global sectors and as a result BCA Research estimates that global growth is likely to be cut in half during the first quarter from 3.3% to 1.7%. As a result, we expect many companies to miss first quarter earnings.

In three of the last five viruses, markets corrected as negative headlines dominated investors attention. However, in 2003 during SARS, markets rallied as the economy was coming out of the 2002 recession. Likewise, during the swine flu in April 2009 when global stock markets bottomed in March 2009, the market rallied as it started discounting that a global recession was over. See Table 1. The average decline in the stock market indexes during Ebola, MERS and Zika is as follows; S&P 500 Index -4%, TSX Composite Index -4.7% and MSCI World Index ex. USA -6.7%. Given that Covid-19 has caused more deaths than SARS, we would expect markets to pullback more than average and would remind investors that annual stock market corrections in the range of 7-10% are normal.

Media attention on the virus plays an emotional role in the stock markets. News flow regarding a virus has typically peaked at an average of 46 days. Using January 20th as the start of the news flow, that means stories about the Covid-19 virus should peak around March 5th. However, it may go beyond that date due to the rising number of deaths.

Table 1

Performance From Beginning to Peak in Newsflow

Epidemic	**SARS**	**Ebola**	**Swine Flu**	**MERS**	**Zika**
Beg. of Newsflow Date	Mar. 14, 2003	Aug. 1, 2014	Apr. 6, 2009	May. 5, 2015	Dec. 27, 2015
Peak Newsflow Date	May. 2, 2003	Oct. 17, 2014	May. 1, 2009	Jun. 12, 2015	Feb. 5, 2016
Period in Days	49	77	25	38	40
S&P 500	12%	-2%	4%	-1%	-9%
TSX Composite	5%	-6%	5%	-4%	-4%
MSCI World ex USA	10%	-9%	6%	-3%	-8%

Source: Scotiabank GBM Portfolio Strategy, Bloomberg.

<u>What Should Investors Do?</u>

- First, do not react based on new headlines or a market correction.
- Second, remember past viruses were buying opportunities for investors. Stock markets usually have a knee jerk reaction and then quickly re-adjust back to the fundamentals of corporate earnings and the stage of interest rate cycle.
- Third, investors should stick with their long-term asset mix rather than letting the headlines induce emotional decisions to reduce equity exposure.

- Fourth, we expect central banks to respond to any economic growth slowdown through further interest rate cuts and more quantitative easing in China, Europe and Japan. An accommodative interest rate policy should buoy stocks later this year as the virus becomes contained and investors start discounting weaker corporate earnings.

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ANIL TAHILIANI, MBA, CFA

Vice President, Portfolio Manager

atahiliani@matcofinancial.ca

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Our mailing address is:

400, 407 - 8th Avenue SW
Calgary, AB T2P 1E5
Phone: 403.539.5740
Fax: 403.539.5744

www.matcofinancialinc.com