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WEALTH MANAGEMENT

Coronavirus - Covid 19

Markets, facts, fear, the media and a perspective

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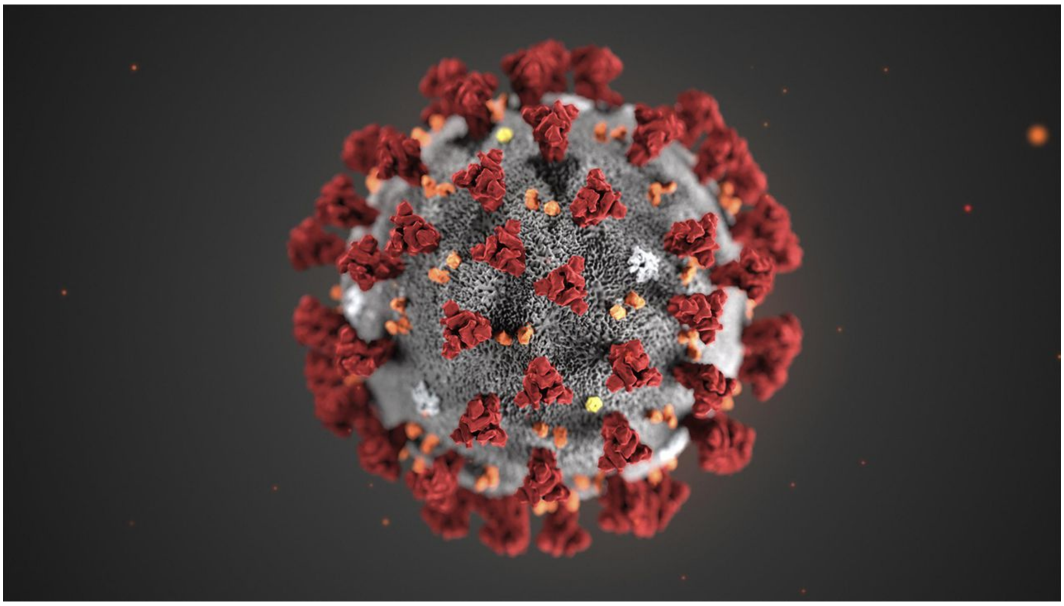
Over the last two weeks stock markets around the world have reacted negatively to the outbreak of the coronavirus, as this new virus, which originated in Wuhan in China, spreads globally. At the time of writing, the virus has touched all continents bar Antarctica and clearly, these are worrying times for investors and anyone with savings invested in stock markets around the world.

No one likes seeing the value of their investments falling in such a seemingly indiscriminate way and it is therefore key to consider the developing event in a wider context and the possible economic and health related outcomes. It is also important not to panic through these periods and avoid making reactive decisions that will often be regretted later.



The Novel Coronavirus - Covid 19

Stock markets are discounting mechanisms

Stock markets have moved lower everywhere, with the FTSE off over 17% and the S&P 500 recording its fastest correction (a 10% fall from a recent peak) since the great crash in 1933. Interestingly, the UK, European and US markets have reacted worse, rather counterintuitively, than the Asian and Chinese markets, which have remained relatively robust. Adding to the market turbulence of last week, oil also fell 9% and then overnight last night a further 25% to $33 per barrel as talks between OPEC and Russia failed to reach agreement in cutting production in reaction to anticipated lower global demand.

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Part of the function of stock markets is to act as a discounting mechanism for perceptions about future economic growth and the Covid-19 outbreak is emerging as potentially the greatest risk the global economy has faced since the onset of the global financial crisis in 2008.

A large part of the Chinese economy remains idle and it is quite likely that a quarter of total working hours may be lost in the first quarter of this year. China's forecast GDP growth for 2020 was just under 6% and it is probable that this event will reduce it to circa 4%. China has consistently enjoyed the highest levels of global GDP growth over the last three decades and an anticipated downturn of this severity is partially responsible for the negative market reaction.

Markets now also recognise the much greater interdependence that countries have with one another around the world. The car industry and technology have a huge supply chain in China, which is affecting companies like Apple and German auto makers like Mercedes Benz in particular. Jaguar Land Rover electronic key fobs are made in Wuhan so even if the car is built and finished in the UK, it can't be shipped without a working key fob. A reason why we have seen JLR shipping various parts in suitcases out of China over the last couple of weeks.

It is fair to assume then that productivity and economic activity around the world is going to be subdued over the coming two or three quarters and the stock market is reacting to anticipated lower earnings expectations. Investors should not overreact to this situation - this event is part of any stock market investor journey. Every now and then we are dealt situations that lead to an increase in market volatility and shocks that shake expectations about investment returns.

These are periods not to panic and as our CTO remarked to me last week, our greatest assistance to client welfare and stress levels through this period might be to turn off access to online portfolio valuations! This brings me on to fear and the role of the press and social media in the modern world.

Coronavirus - some facts and perspective

Sadly, we have seen a great deal of scare mongering over the last fortnight, principally through members of the media who should almost certainly be presenting a more balanced appraisal of some of the medical facts and indeed providing the context of history to previous outbreaks of flu and related illnesses.

Whereas, this is quite obviously a highly contagious form of respiratory illness, the chances of 80% of the population contracting the virus (as certain members of the media have intimated), is vanishingly slim. Even in China, the centre of the outbreak, the infection rate has not come close to that. We will not see a repeat of the 1918-19 Spanish flu, when there were no antibiotics or antiviral drugs to mitigate the severity of the infection.

Indeed, coronavirus may well prove less lethal than the 2009 swine flu pandemic. Back then health officials feared that outbreak would kill 65,000 people in the UK - in reality it killed 457 people. We should all recognise that this is ultimately a respiratory virus (albeit a new and contagious one) and reflect on the facts that are being so obviously omitted from most media reporting. That is that thousands of people die of the flu every year in the UK. A glance at the Public Health England survey of influenza for the last available full year - 2017/2018 -

reveals on page 51 that 26,408 people died of flu in the UK that year. So when Jeremy Vine or Emily Maitlis deliver (as they both did this week) with a sense of terror and foreboding the news that the first person in the UK had died of coronavirus, reflect that, on average, over 500 other poor souls will have succumbed to flu this week without mention.

Things clearly may get much worse before they get better and of course the travel and tourism industries are being pummelled and the service sector will suffer short term as people stay at home. Entertainment and sporting events are struggling too with the Chinese Grand Prix cancelled and of course the Tokyo Olympics in the balance. Countries such as Italy and Germany, where growth is already weak, could slip into recession as could the US and UK.

But the danger is that we all talk ourselves into a slump - media and social media could play a worrying part in that process and those that deliver the news should reflect on the part they play.

Economic fundamentals are broadly sound, so we should all look through this period to better times ahead. Indeed, there will be opportunities for those with cash positions now to deploy new investments into the market at depressed prices who will undoubtably be rewarded when looking back in two or three years time with the benefit of hindsight. I'm quite sure that Warren Buffett will be planning his next investments as I write. The message about these periods is straightforward. Do not panic, retain perspective and look ahead.

What next - monetary or fiscal assistance?

Rishi Sunak - Chancellor

What I am quite convinced about is that this period will pass and governments are now quickly assessing the actions necessary to help with both the medical and financial assistance required to stabilise both market and individual reactions.

With interest rates at historic lows - both UK 10 year Gilts and US 10 year Treasuries have this week hit all-time lows in terms of the yields - it is arguable that central banks have little ability to provide assistance using interest rates. Indeed, the reaction of the 50 basis point cut in US rates this week saw the S&P 500 take another sharp leg down, providing an instantaneous market reaction to this strategy.

What is required right now is fiscal stimulus and I strongly suspect that our new Chancellor, Rishi Sunak, will deliver on this in his first budget this week. He has a pedigree, which will provide context for this crisis (his father was an NHS GP and his mother ran a pharmacist). He has himself had a career at Goldman Sachs and has worked at a successful fund management business too. Let us hope that he can deliver new government policy, with vision, perspective and a genuine sense of the economic impact policy has on our savings and investments.

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