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Coronavirus

Background

Coronavirus or COVID-19 to be specific, is certainly grabbing world headlines at the moment and I'm sure you're aware this new virus is from the family of viruses that include the common cold, as well as viruses such as the 2002-2003 SARS outbreak and the 2012 MERS outbreak.

While COVID-19 appears to spread much more easily than both SARS and MERS, it also appears to have a much lower mortality rate than either. SARS had a mortality rate of around 10% (with 774 deaths), and MERS a mortality rate of over 30% (with 858 deaths). COVID-19 currently appears to have around a 3% mortality rate. While the number of new cases outside mainland China appear to have increased in recent days, within mainland China, the rate of new cases appears to be slowing.

The human impact is clearly terrible, but it is important to keep these numbers in some context. 'Normal' seasonal flu (which has a mortality rate of below 1% but has high infection rates), results in up to 650,000 deaths globally each year according to the World Health Organisation (WHO).

Q&A

Q - "Is there anything MasterCard can't buy?"

A - Protection from COVID-19 seems to be one of them

MasterCard has cut its financial outlook, citing the impact of the coronavirus on cross-border travel and commerce.

The company expects full-year revenue growth to be at the "low end" of its previous outlook.

MasterCard shares, which fell 4.4 per cent on Monday, dropped another 2.7 per cent in after-hours trading in the wake of the announcement.

Market/Economic Impact

For financial markets, the economic impact is key. As authorities seek to contain the spread of the virus, closing of transport networks, and largescale disruption to normal economic behaviour (such as work, shopping, leisure, and travel), can all have a significant impact to country and regional economic output.

There are a number of important differences between the SARS outbreak in 2002/2003 and now. One is China's share of global GDP which in 2002-2003 was around 4%, whereas in 2018, China accounted for around 16% of global GDP - as a result some equity markets over the last week have fallen by around 7%

Chinese authorities in recent weeks, have cut interest rates (with cuts to both their one-year and five-year loan prime rates), as well as targeted tax cuts to those businesses hardest hit by the COVID-19 outbreak.

In addition to action from Chinese authorities, we might expect other regional central banks and policy makers to deploy additional monetary and fiscal support should they deem it necessary to support their economy. Such co-ordinated policy easing will give support to financial markets as they look to navigate the expected volatility of economic activity in the coming months.

The highest impact on equity markets is likely to peak in late March and the material impact on 2020 earnings, because of the supply chain disruptions, is likely to be in the first half of the year. Economic growth is likely to be more impacted than so far experienced and we could suffer a short term technical global recession. This would mean that at best, earnings could be flat for the year but the impact is likely, again, to be in the first half but with a sharp recovery in the 2nd half providing the outbreak can be brought under control.

Sources: Andrew Lewis, Senior Investment Director at Brooks Macdonald.
Adam Brewer, Associate Investment Director at Investec Wealth & Management.
Robert Armstrong of The Financial Times.