GLACIER UPDATE: CORONA VIRUS & THE IMPACT ON FINANCIAL MARKETS

February is a month to be forgotten, having lost all the momentum gathered in January as doubts as to the severity and impact of the Coronavirus continue to contaminate sentiment. Global stock performances, or rather their underperformance, is being compared to 2008 when fear gripped the market at the onset of the Global Financial Crisis. Not a particularly comforting thought at the start of what looks to be an exceptionally long year.

First cases of the Coronavirus, or Covid-19, were recorded in November 2019 in China. It is now almost three months later and we've seen global markets bleeding during the last week of February. The MSCI World Index lost more than 10% during the week of 24 – 28 February. Investors may ask why the market is only reacting now? The reason for the panic is captured in the 'situation in numbers' below.

The 'situation in numbers' is produced daily by the World Health Organisation, below is a comparison.

Reported 31 January	Reported 27 February
Globally	**Globally**
9829 confirmed	82 294 confirmed
China	**China**
9720 confirmed	78 630 confirmed (439 new)
15 238 suspected	2747 deaths (29 new)
1527 severe	
213 deaths	
Outside of China	**Outside of China**
106 confirmed	3664 confirmed (746 new)
19 countries	46 countries
	57 deaths (13 new)

THE IMPACT ON FINANCIAL MARKETS

Global Markets are being shocked by two factors with regard to the virus. The first is the increase in confirmed cases during the last month and the second is the number of cases reported outside of China. The map below shows the countries where cases of corona have been reported.

Distribution of COVID-19 cases as of 27 February 2020 — World Health Organization
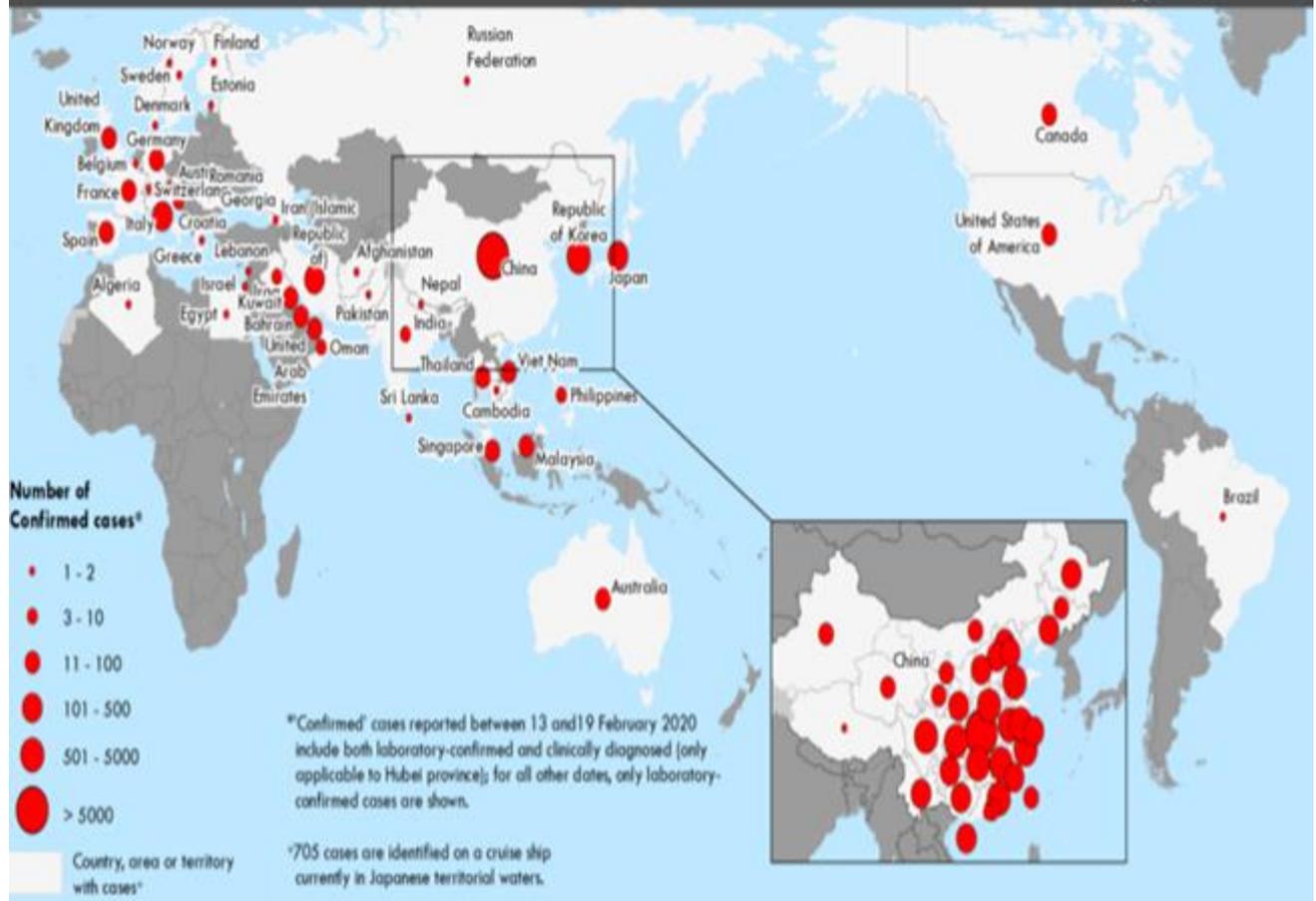
The uncertainty that the Coronavirus brings to the market is the impact on growth. Unfortunately, this impact is now not only limited to the China GDP, as was the case a few weeks ago, but it is now also a global concern. We've seen several reports on companies where operations have come to a standstill, factories are temporarily closed, even events like the Summer Olympics might get cancelled.

Lost production, manufacturing, and economic activities have an impact on the earnings of companies. When investors anticipate that earnings will be lower, they normally reduce exposure to those companies, forcing a decline in the share price.

THE NUMBERS

Rand Returns	Weekly %	Month %	YTD %
All Share	-10.49	-7.46	-9.27
Industrial 25	-8.81	-4.59	-3.35
Financial 15	-9.15	-9.06	-13.05
Resource 10	-14.01	-8.93	-12.52
Mid Cap	-11.52	-10.60	-13.99
SA Property	-9.00	-14.31	-17.14
Dollar Returns			
MSCI World Index	-10.04	-7.59	-7.68
NASDAQ Composite	-12.15	-6.27	-4.53
S&P 500	-11.69	-8.17	-7.80
DAX	-9.49	-6.34	-6.65
FTSE 100	-8.61	-8.31	-9.89
CAC 40	-9.35	-6.27	-8.07
NIKKEI 225	-6.52	-5.98	-7.22
HANG SENG INDEX	-5.39	-6.54	-7.24
Hang Seng China Enterprises Index	-5.60	-6.13	-7.61
Shanghai Composite	-4.95	-3.23	-5.57
Singapore Straits Ti	-5.52	-6.72	-6.30

The table shows that all markets are experiencing large negative returns.

During the last few years, the world has seen several epidemics. Looking back at these events helps investors to understand the impact on financial markets. The data below shows the global equity market returns following several epidemics. It is clear that market participants react to such unforeseen outbreaks initially, but markets tend to recover by the six-month mark. This suggests that sentiment drives early losses, but sustained economic impacts are less than perhaps investors feared at the onset.

Epidemic	Date	Subsequent Returns					
		1mth	3mth	6mth	1yr	3yr	5yr
SARS	Apr-03	8.7%	17.9%	32.6%	48.3%	26.3%	18.4%
Avian Flu	Jun-06	0.0%	3.0%	13.9%	26.3%	-6.2%	4.6%
Dengue Fever	Sep-06	1.2%	8.2%	13.8%	20.0%	-3.4%	1.8%
Swine Flu (H1N1)	Apr-09	12.3%	23.4%	43.6%	58.7%	22.4%	19.2%
Cholera Outbreak	Nov-10	-1.9%	7.1%	12.6%	1.2%	11.2%	8.5%
MERS	May-13	-0.1%	1.7%	10.7%	15.3%	5.8%	9.5%
Ebola	Mar-14	0.4%	3.3%	2.8%	7.7%	5.4%	6.8%
Zika	Jan-16	-6.1%	0.5%	6.3%	8.8%	7.1%	
Ebola	Oct-18	-7.7%	-12.9%	1.1%	1.3%		

Source: Optimum Financial Services