



# Current Perspectives

## Coronavirus Outbreak

What it may mean for global financial markets

### At a glance

- **The recent outbreak of coronavirus in China** has many investors on edge, as the severity and potential impact of the flu-like illness is largely unknown
- **While it's too early to quantify the economic implications for China** and elsewhere, we examined the market's response to the 2003 SARS pandemic as a baseline for comparison. Our analysis found that after an initial, reactive decline, most notably in China, markets recovered in the ensuing months
- **WAAC view:** While markets may become volatile, and experience near-term pull-backs, we hold to our thesis for long-term outperformance of equities

# The recent respiratory virus outbreak that originated in the Chinese city of Wuhan has sickened thousands and resulted in a growing number of deaths.

The virus is spreading throughout China, other Asian countries, and cases have also surfaced in Europe, Canada and the U.S. Health authorities expect the infection to spread further. However, it's difficult at this point to predict how severe and broad the contagion will spread, even for the experts.

Capital markets dislike uncertainty and coronavirus is only adding to the current shaky sentiment. Investors are already sensitive to headline risks and have concerns over the possibility of deteriorating economic conditions. Chinese markets have declined sharply recently, while

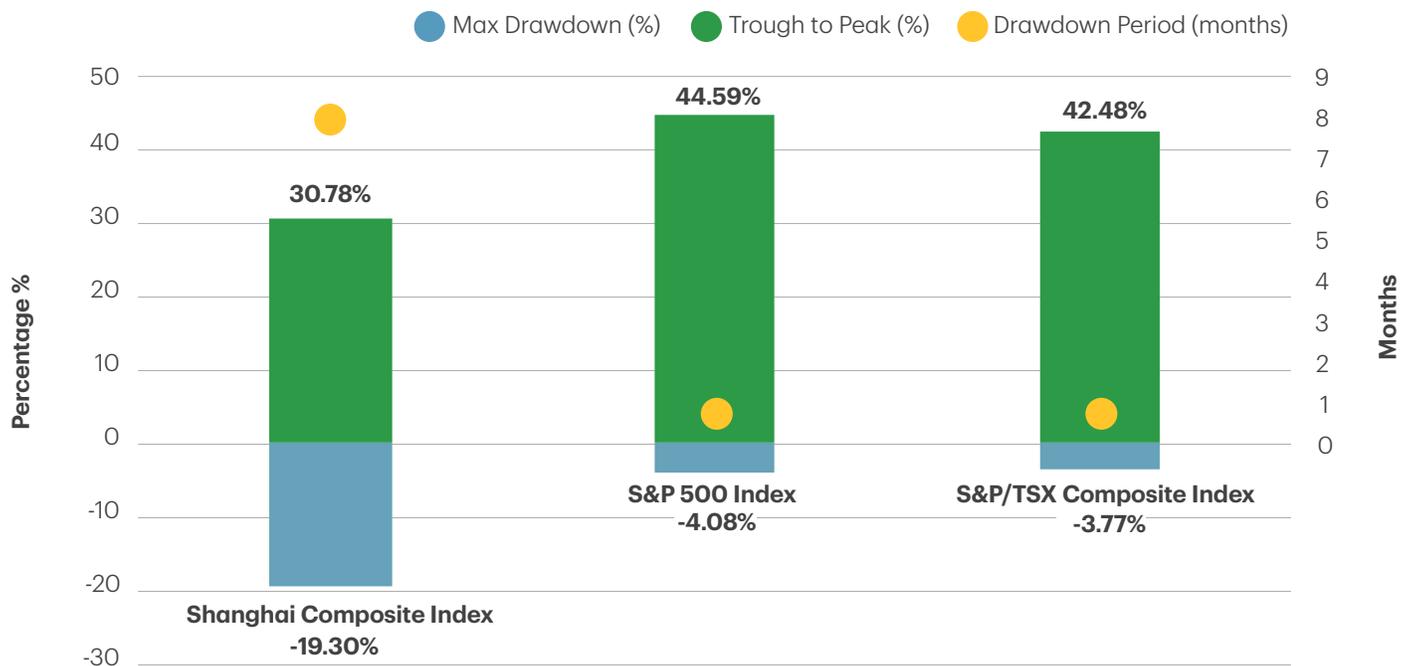
other global markets have been skittish, with volatility on the upswing. As more cases of the virus are reported around the world, investors will naturally be wary of the potential risks and impacts to global markets.

In such cases, we believe it's prudent to look at similar events to gain insight on possible market ramifications (e.g. SARS, Swine Influenza, Bird Flu). In our view, the 2003 Severe Acute Respiratory Syndrome (SARS) pandemic, provides a comparative lens from which to analyse market behaviour - during the outbreak and in the months following containment.

## Market Response to SARS (March 1, 2003 to March 31, 2004)

The announcement of SARS related illnesses began to surface in March 2003, but actual cases likely originated in late 2002. It was officially declared contained around August 2003

### SARS Outbreak Index Performance



Source: Bloomberg Finance L.P. From March 1, 2003 to March 31, 2004.

## Key takeaways:

**China experienced a significant drawdown of over 19% during SARS, and also the longest drawdown period.**

It's important to note that at the time Price to Earnings multiples on Chinese equities were highly elevated by historical comparison. Today Chinese stocks trade at more reasonable valuations, which could translate into lower drawdown risk during the current outbreak.

**Canadian and U.S. equities experienced a much shallower drawdown compared to China, and the duration of the correction was also shorter.**

We might expect the negative impact to North American equities to be relatively muted if the eventual outcome of coronavirus is comparable to SARS.

**All three major indexes represented in the chart posted significant gains approximately a year after the onset of the SARS crisis.**

This might suggest that any immediate market response to the current epidemic could be short lived.

## TD Wealth Asset Allocation Committee (WAAC) Perspective

It goes without saying that we are hopeful for a limited human and economic fallout from coronavirus. The SARS pandemic that broke out 17 years ago in China caused a reported 8,098 illnesses, resulting in 774 deaths in 17 countries.<sup>1</sup> While it's too early to determine how broad the impact of coronavirus will be, there are signs China is handling this event more efficiently. China is being more transparent, as it was months into the SARS outbreak before full public disclosure was provided. The World Health Organization is also working with Chinese authorities and global experts to learn more about the virus, how it affects the infected, treatment options, and measures countries can take to respond.

Some global economies and sectors might be more vulnerable than others. Depending on potential travel restrictions, Canada's tourism economy could be particularly exposed considering its popularity as a Chinese tourist destination. Commodities related to

travel and tourism could come under pressure; jet fuel for example, and travel related stocks like airlines, hotels, and casinos, could also suffer.

We acknowledge that the outbreak could temporarily suppress economic activity, however, any meaningful equity market correction could create investment opportunities at attractive valuations. China may even deliver economic stimulus (fiscal or monetary policy support) during this difficult period to help maintain market stability. We continue to adhere to the philosophy that focusing on investing in high quality assets, within a diversified portfolio, remains the key driver of long-term outperformance. Additionally, we believe that despite headline risks, the presence of continued central bank accommodation, signs that global growth appears to be reaccelerating, and strong corporate health, particularly in the U.S., will continue to support higher equity valuations in 2020.

# Allocation

**Robert Vanderhoof, CFA**

Chief Investment Officer, TDAM  
Chair, TD Wealth Asset Allocation Committee

 @TDAM\_Canada

 TD Asset Management



---

<sup>1</sup>Smith, Richard D (2006). "Responding to global infectious disease outbreaks: Lessons from SARS on the role of risk perception, communication and management". *Social Science & Medicine*. 63 (12): 3113–23. doi:10.1016/j.socscimed.2006.08.004. PMID 16978751. The information contained herein has been provided by TD Wealth and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS. The TD Wealth Asset Allocation Committee (WAAC) is comprised of a diverse group of TD investment professionals. The WAAC's mandate is to issue quarterly market outlooks which provide its concise view of the upcoming market situation for the next six to eighteen months. The WAAC's guidance is not a guarantee of future results and actual market events may differ materially from those set out expressly or by implication in the WAAC's quarterly market outlook. The WAAC market outlook is not a substitute for investment advice. Bloomberg and Bloomberg.com are trademarks and service marks of Bloomberg Finance L.P., a Delaware limited partnership, or its subsidiaries. All rights reserved. TD Wealth represents the products and services offered by TD Waterhouse Canada Inc., TD Waterhouse Private Investment Counsel Inc., TD Wealth Private Banking (offered by The Toronto-Dominion Bank) and TD Wealth Private Trust (offered by The Canada Trust Company). All trademarks are the property of their respective owners.®The TD logo and other trade-marks are the property of The Toronto-Dominion Bank.