COVID 19 - Coronavirus Client Update

There has been a considerable amount of news articles and discussion about the Coronavirus and the impact as it spreads outside of China has on global economies. There has been extreme market volatility in both share and bond markets in response to these concerns. The below commentary has been prepared by the AMP Investment Research team to assist you in understanding the impacts the coronavirus will have on portfolios.

Your Stature Financial Adviser is here to support you and is available to discuss your portfolio and your concerns. Please contact your Adviser directly to arrange a meeting or you can contact one of our client services representatives who can arrange a meeting with your adviser by calling **02 8256 2100** or via email contactus@staturefinancialgroup.com.au.

Market volatility and the impact of Coronavirus

The outbreak of the Coronavirus, now officially named COVID-19, has sent volatility in financial markets higher as stock prices have fallen. Discussions around if it will become a global pandemic continue, as the spread of the virus gathers momentum outside of China, where it originated. The human cost continues to cause concern with the numbers of infected people rising and the death rate being estimated to have reached a level of 3.3% in recent days. While the death rate is much less than that of the SARS outbreak in 2003 which was 9%, it is much higher than the swine flu pandemic of 2009 which infected an estimated 700m – 1.4bn people worldwide, with a death rate of around 0.03%. Clearly, the concern here is that a pandemic of similar proportions would be much worse in terms of the number of deaths globally.

From a financial market standpoint, the significance is what the response is and will be going forward. The impact on economic activity could be either short-lived, which markets would tend to simply look through, with some short-term gyrations resulting from short term uncertainty. Alternatively, an escalation of the spread of the virus could drive more sustained responses that impact global supply and demand across a range of markets.

The shutdown of the city of Wuhan with a population of around 13 million people is as far as we can gather unprecedented, the then broader effective shutdown of the surrounding province and the many businesses in China not opening with people not coming to work will significantly reduce China's first-quarter GDP. The resulting inactivity in China means China could see the lowest growth rate recorded for decades. The demand for raw materials has fallen dramatically and can be observed by the over 17% fall in the Brent oil price since the 20th of January. We are seeing impacts to supply chains in the manufacturing of products limiting their ability to maintain sales while other companies are signaling reduced revenues as demand decreases for certain services.

The banning of tourists/travellers coming out of China and Hong Kong means that many of approximately 120 million Chinese tourists per annum are not travelling. The world's largest exhibition for the mobile industry which was scheduled to be held in Barcelona has been cancelled and with the Tokyo Olympics also now in jeopardy as a result of the spreading of the virus the ramifications for global activity are at present uncertain.

It is these responses and the effect that they have on both supply and demand that will determine the impact on economies and corporate profits. There is some risk that irrational or excessive responses are more damaging economically than would normally be the case for a comparable bad flu season. Financial markets will move accordingly and the period of uncertainty, we are now experiencing will elevate volatility. However, the question remains, how long will this last? Without knowing this it is very difficult to give assurances but equally, it is very difficult to suggest an alternative positioning for investment portfolios. History shows that trying to predict and time investment for these and almost any other event can be more damaging than staying the course which is why this remains our current positioning. Of course, we continue to monitor events as they occur and can provide further communications should there be some clarity around how the future is likely to play out.