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Market Update: 30th January 2020

Coronavirus Outbreak Unsettles Global Markets

Financial markets across the globe declined this week on fears that the recent coronavirus outbreak is spreading, with the soaring number of confirmed cases of the virus weighing on equity markets during a busy week of earnings releases. Stocks slid over the week as investors mulled mounting evidence that the epidemic is disrupting the world's second-largest economy. Bonds gained over the week, reflecting a risk-off shift while the Chinese yuan weakened to below 7 for the first time this year.

As the pneumonia-like illness spreads further, the number of confirmed cases in China has now overtaken the official number of infections in the country during the SARS epidemic 17 years ago. The new coronavirus -named 2019-nCoV- is thought to have originated in the Huanan Seafood Wholesale Market in central China metropolis Wuhan, and has since infected more than 7,700 people. The death toll has now climbed to 170, with most cases in Hubei province, the epicentre of the outbreak (where Wuhan is the capital). According to China's National Health Commission (NHC), almost 60,000 patients are under observation, double the number from earlier in the week. Deaths and cases are likely to rise until the outbreak is contained.

Confirmed Cases in Mainland China by Province
As of January 29, 2020, 12:10 AM GMT

■ 1-9 ■ 10-99 ■ 100-999 ■ 1,000 or more



Containing the Outbreak

In Wuhan, public transport and ride-hailing services have been suspended, trains and flights from the city have been stopped and people have been told to leave only for essential reasons. Similar travel restrictions have also been announced in at least 11 other Chinese cities, impacting over 50 million

people. Governments around the world have ramped up efforts to stop the spread of the disease, tightening international travel and border crossings with China.

Reports this week now suggest that the virus can be transmitted from person to person. German authorities said this week that it had identified a cluster of local patients infected by a woman from Shanghai who had been visiting Europe. This represents a worrying sign for health authorities who have taken aggressive steps to stop what has so far been mostly a Chinese outbreak from becoming an international one.

In comparison to other coronavirus SARS, the 2019-nCoV disease appears less virulent at the moment, and most life-threatening to the ill and elderly. However, coronaviruses are known to mutate readily after jumping to human hosts, causing concern over the extent of the outbreak.

British Airways announced yesterday it had halted flights to Beijing and Shanghai, joining other carriers in announcing the cutting or suspension of flights to China following the outbreak. The moves come as the US and UK said that residents should avoid all non-essential travel to China, and after the announcement that all UK residents flown back from Wuhan, the city at the centre of the outbreak would be put in quarantine for a fortnight due to concerns about further spreading of the virus. The US government is considering options to combat the emergence of the coronavirus, including a ban on flights to and from China, though no decision has been made as of yet. Hong Kong has restricted transportation from the mainland.

Disruption to Businesses

A number of international businesses are finding themselves at the centre of the outbreak. Toyota Motor Corp has halted its operations in China until Feb 9th, joining a growing list of global companies that have cut back on business activities in China. Businesses operating in China or relying on Chinese demand have experienced significantly lower demand as a result of the virus outbreak and reduced travel over the Chinese Lunar New Year. Starbucks has shut over 2,000 of its stores in China in response to the virus, cautioning that its annual financial results had been threatened by the outbreak, highlighting the challenges facing corporates from the spread of the deadly infection. Apple is facing risk of disruption as the company's partners confront the outbreak, with concerns over the impact it could have on the company's supply chain.

As the Q4 US earnings season gains momentum, coronavirus fears are being raised in earnings calls throughout different sectors as Wall Street looks for any effects from the virus spreading within and outside of China. McDonalds has temporarily shut down some of its stores in China due to fears about the outbreak. During the SARS crisis in the early 2000's, there was a noticeable impact on restaurant sales in the Greater China region. Chinese sales account for only 2% of the company's sales therefore any impact is expected to be limited at this point.

Tesla is also looking to quell concerns around the impact of the outbreak on China momentum. Given China's growing importance on both the supply and demand fronts of the company, any worries about disruption are likely to impact share price.

Chinese Handling of The Crisis

Rewind the last five weeks of the China virus outbreak, and you'll find a tale of bureaucratic miscues, a health-care system unequipped for sudden crises and a food industry in dire need of reform- which presents a public health risk to China and beyond. While the World Health Organisation has praised China for its openness in sharing information, some infectious disease specialists believe local authorities were too slow to contain the outbreak in December and early January.

The disease is thought to have originated in the Huanan Seafood Wholesale Market in Wuhan, a traditional “wet market” where crowds of shoppers, freshly slaughtered and unwrapped meat and live animals commingle in close quarters, with meat and live animals often sitting alongside garbage and rotten food. They create an ideal breeding ground for dangerous pathogens. The Chinese government only announced a ban on wildlife trade on Sunday in response to the latest virus outbreak.

Criticism of Wuhan authorities waiting until 23rd January to impose a travel ban-when cases had turned up across many parts of China. A faster response would have enabled officials to curb the movement of people who were still in the incubation phase and prevent virus-carriers from transporting it out of the city.

It was reported yesterday that a Chinese health official had been removed from his post in the government’s first dismissal related to the coronavirus outbreak. The official, Wang Zengtian has been removed from his post for “severe dereliction of duty and irresponsibility” related to coronavirus. The government has vowed to punish officials who delay virus information. The ruling communist party is anxious to avoid a repeat of SARS, during which it was criticised for initially covering up the scale of the problem.

Market Reaction

Financial markets have reacted starkly to virus outbreak concerns, with global equity markets declining over the week. Financial markets in Hong Kong opened for the first time yesterday following the Lunar New Year, with the index down 2.7% over the day. Over the week, US and European equity markets declined by over 1.5%. Bonds and safe havens gained on risk-off sentiment.

Financial markets in China will reopen on Monday after the central government extended the holidays on the mainland. China pledged to provide abundant liquidity for money markets and urged investors to evaluate the impact of the virus objectively.

Our Outlook

As it stands, we don’t know how far, or how fast the new coronavirus outbreak will spread, therefore we are assuming that the response in financial markets will follow the same pattern observed during and after previous epidemics- the initial panic is likely to be unwound after a few weeks. For this reason, we are content with the current defensive allocation, with bond performance within the portfolios adding returns given recent risk-off sentiment. In the near term, we see further weakness ahead for equity markets, with the re-opening of Chinese markets on Monday after the holiday period likely to provide some clarity on the impact of the epidemic on Asian markets. Should global equity markets continue to decline, this could present us with a buy in opportunity for global equities, with our outlook remaining unchanged while valuations adapt to more reasonable levels relative to company fundamentals. As it stands, we are in wait and see mode, and are ready to act should opportunities arise in global and Asian markets as a result of market overreaction regarding the outbreak.

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