



**SILVERCREST**  
ASSET MANAGEMENT GROUP

## CORONAVIRUS UPDATE

Headlines and news alerts abound with the latest facts and speculation regarding the outbreak of a coronavirus originating from Wuhan, China—a city located in central China with a population of 11 million. We will draw on economic and market data from prior events, as well as comparisons to SARS—an event experienced firsthand by Patrick Chovanec, who was living in Beijing at the time.

It is helpful to contextualize prior health scares. At one extreme is the 1918 Spanish Flu, at the other is a typical flu season in the U.S. A typical flu season is quite widespread and impactful. However, it has a very low mortality rate—typically less than 0.2%. It comes and goes every year with little attention paid to economic or market impact. Data on the Spanish Flu of 1918 must be viewed in the context of data collection, but mortality rates of 10–20% are often cited. However, communication and medical practices were far less advanced in 1918. In any event, it was a devastating global phenomenon.

Early estimates on the Wuhan coronavirus are around 3% for mortality. The SARS and MERS outbreaks, which had higher mortality rates, provide some guidance. Taken together, it appears that the Wuhan coronavirus deserves attention, as it is far more severe than a typical flu, however, it does not appear to be as severe in terms of mortality as other recent outbreaks. While it has the potential to spread more broadly and will persist in the news, early efforts at strict quarantine and lockdown may prove beneficial, though it is too early to know. We are not medical experts and acknowledge both that it is early days and that caution on the medical front is warranted. Our best guess is that the coronavirus will prove less deadly, but more widespread than SARS.

Many businesses have closed and/or cancelled events and official closings for Lunar New Year in China have been extended. Consider that China is approximately 10% of global GDP. A significant impact of six weeks (12% of a year) at a severe 30% decline in activity results in a sub-1% hit to global GDP. CNBC reported earlier today estimates ranging from 0.7%–1.0% impact on global GDP, compared with prior outbreaks. Of course, there are indirect effects as well. Patrick reminds us that many of those not affected by the virus are likely to curtail activity simply due to logistical issues, such as those observed on the ground in China during SARS, or today in hearing from those who are evaluating plans for upcoming China travel. In short, early information seems to indicate a modest negative impact on economic activity, in the aggregate, over the course of the year. This fits our expectation for economic growth to remain relatively slow yet positive.

During prior viral outbreaks—such as the Avian Flu, Ebola, MERS, and SARS—the market declined yet rose higher in the following six months. It is reasonable that a market which has seen little recent negativity would experience a pullback in response to increased uncertainty and negative sentiment which accompanies events like these.

Recently, our Investment Policy & Strategy Group released its 1Q 2020 outlook where we strongly encouraged rebalancing to target allocations. If this latest situation does turn into a normal correction, it is far better to have appropriate, intended long-term equity exposures. Looking beyond the outbreak, the prudent response remains staying the course—this is especially true if allocations are set to appropriate risk levels.

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