

Coronavirus Update– February 2020

Select Wealth Management's Investment Manager, JMI Wealth shared their thoughts about the Covid-19 (previously known as Coronavirus) outbreak in the February Investment Report after news of a virus spreading in the city of Wuhan over the Chinese New Year period. The situation has evolved since and, at the time of writing, the virus has gone on to affect over 86,900 people around the globe, causing over 2,900 deaths (3.4% fatality rate versus SARS which was 9.6%). Numbers out of China show that the demographic profile of the fatalities were mainly male, accounting for 2/3, females accounting for 1/3, more than 80% were over 60 years old, and more than 75% had existing underlying health issues such as heart diseases, diabetes and in some cases, cancer.

Share markets have responded and many of the world's largest markets are in correction territory (i.e. declines of 10% from their recent highs). The latest bout of market selling came after the US Centres for Disease Control and Prevention confirmed a possible instance where the transmission of the virus occurred in California. This reinforced fears that the 'window for containment' of Covid-19 is narrowing.

Although the situation will likely evolve in ways we cannot predict, our general views on the potential outcomes for markets are:

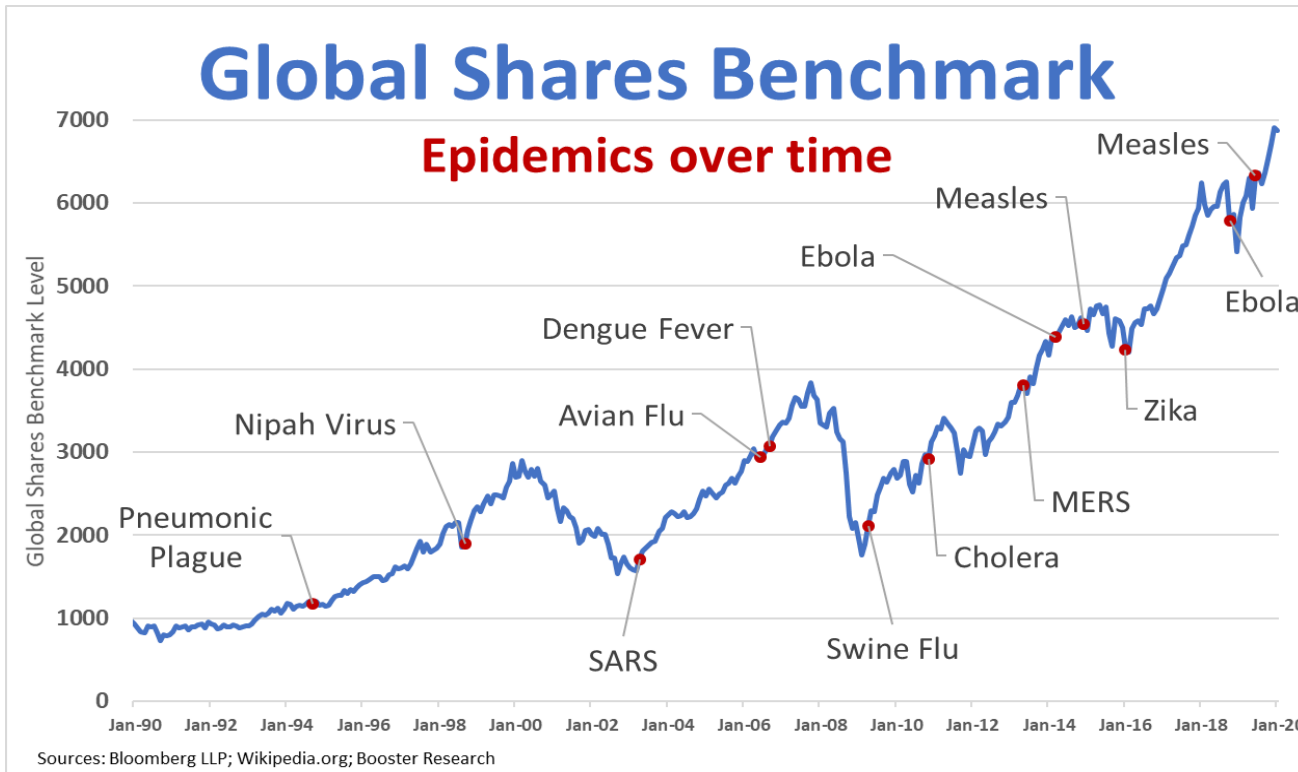
- We expect to continue to see volatility as investors attempt to price the economic impact of the virus and grapple with uncertainty.
- Some sectors and companies are more vulnerable than others.
- Interest rates, which have been under pressure prior to the outbreak, are likely to remain suppressed low as investors flock to safe haven assets.
- Central banks are likely to respond to any potential weaker growth by reducing interest rates where possible.

Our thoughts:

- The prevalence of Covid -19 has increased but does not yet imply a sustained and permanent economic disruption.
- It is difficult to know which direction the market will go in the short-term.
- Having the appropriate long-term asset allocation is important, if you are uncomfortable with an increase in volatility, a more conservative position (but within asset class ranges) may be appropriate. For most of our clients there are other assets in their portfolio such as fixed interest and cash which will provide some counterbalance to the volatility that shares often bring to a well-diversified investment portfolio.

We appreciate that sticking to your long-term investment strategy is challenging at times. Investors should be wary of responding to headlines and before making any major changes be sure to ask themselves if their investment objectives have changed or if they are simply being reactionary to news flow. It might help to review your risk appetite and investment time horizon. Whilst there is uncertainty in the short term, we believe that it is likely that global economic growth will continue, supported by low interest rates and government stimulus.

While it is difficult to know which direction the global share market takes in the short term, I thought that I would end with the below chart showing the movement of shares when other Epidemics have been declared going back to 1990. While there is a period of short-term negative market movement, in each case the markets have recovered and moved onto new highs.



I hope that you have found this useful and I am of course happy to answer any questions you may have.

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