

## Coronavirus concerns are overdone, we stick to our asset allocation

- ▶ Markets seem to be worried about the impact of 2019 Novel Coronavirus
- ▶ Whilst these concerns could induce volatility in the near term ...
- ▶ ... we do not see them altering our constructive outlook for global capital markets in 2020

### The bug

Novel coronavirus, also referred to as 2019-nCoV, was first reported on 30 December 2019 in the Chinese province of Hubei. At the time of writing this report, there were more than 4,580 confirmed cases of this infection and 106 deaths worldwide according to Bloomberg<sup>1</sup>. World Health Organisation's assessment of the risk on 27 January 2020 was "very high in China, high at the regional level and high at the global level"<sup>2</sup>. As a result, Wuhan's city in China with a population of c11million is under lockdown. China extended the Lunar New Year holiday to help contain an outbreak of this mysterious virus. Several countries around the world have issued travel warnings.

### The concern

Markets appear worried about the potential impact from the spread of this epidemic – seen in equity markets falling and yield curves flattening. There are several reasons behind the worry. To start with, markets are still haunted by the memory of the SARS epidemic of 2002 and 2003, a coronavirus outbreak that also started in China and eventually killed more than 800 people worldwide. Also, there is no conclusive evidence of how the outbreak started, so that it can be contained. While officials in Wuhan pointed fingers to the wet markets, some patients who have fallen ill never visited the market and some had known pre-existing conditions. Researchers have also offered disparate explanations for what animals may have transmitted the virus to humans. Furthermore, whilst at this stage the infection seems to be less severe than the SARS (2002-2003) and MERS (2012-2015), time lag for emergence of symptoms (incubation period) seems larger now than in both previous cases. Overall, in the near-term uncertainty should prevail and as a result market volatility might as well rise.

### Putting 2019-nCoV in historical context

The table on the following page shows how various epidemics of the past have impacted broader equity markets. As it can be noticed very quickly, impact of epidemic outbreak on equities has been limited in most previous episodes. In fact, on an average equity markets rose 0.4%, 3.1% and 8.5% in the 1 month, 3 month and 6 month periods subsequent to the outbreak of epidemics. Maximum drawdowns were 7.4%, 13.7% and 4.3% over similar time frames. The drawdowns of 7.4% over 1 month and 13.7% over 3 months following the outbreak of Ebola in October 2018 coincided with the market sell off on broader macro fears of tighter policy by Fed and disappointing corporate earnings. To that extent, we think coronavirus can at best be 'a factor' and not 'the factor' influencing equity markets in the near-term.

### Our asset allocation

The 2019-nCoV outbreak could be seen, by some equity investors, as an opportunity to take profit as markets wait for earnings to rebound, especially after an impressive rally over recent months which has seen sentiment improve markedly. We disagree. This entire episode would be a part of our 'high volatility' narrative for 2020 and our risk-barbell positioning. At this stage the 2019-nCoV story also dovetails with our equity asset allocation which prefers US high quality growth stocks over European and emerging market stocks. There is also a chance that China will ratchet up stimulus because of Coronavirus fears, this would immediately confirm our yield curve steepening hypothesis too. For details on our asset allocation views, see [Quarterly Investment View, January 2020](#). Key risk to our constructive view is a protracted spread of the 2019-nCoV resulting in pronounced weakness in global consumption – which has been the key driver of global growth in recent years.

**Kishore Muktinutalapati**

Equity Strategist

Tel: +971 (0)2 696 2358

[kishore.muktinutalapati@adcb.com](mailto:kishore.muktinutalapati@adcb.com)

**Luciano Jannelli, Ph.D., CFA**

Head Investment Strategy

Tel: +971 (0)2 696 2340

[luciano.jannelli@adcb.com](mailto:luciano.jannelli@adcb.com)

**Prerana Seth**

Fixed Income Strategist

Tel: +971 (0)2 696 2878

[prerana.seth@adcb.com](mailto:prerana.seth@adcb.com)

**Mohammed Al Hemeiri**

Analyst

Tel: +971 (0)2 696 2236

[mohammed.alhemeiri@adcb.com](mailto:mohammed.alhemeiri@adcb.com)

**Noor Alameri**

Analyst

Tel: +971 (0)2 694 5182

[noor.alameri@adcb.com](mailto:noor.alameri@adcb.com)

Visit [Investment Strategy Webpage](#) to read our other reports or write to us at [investmentstrategy@adcb.com](mailto:investmentstrategy@adcb.com)

<sup>1</sup> Mapping the Coronavirus Outbreak Across the World, By Cedric Sam, Chloe Whiteaker and Hannah Recht, Bloomberg, Updated: January 28, 2020 7:30AM GST

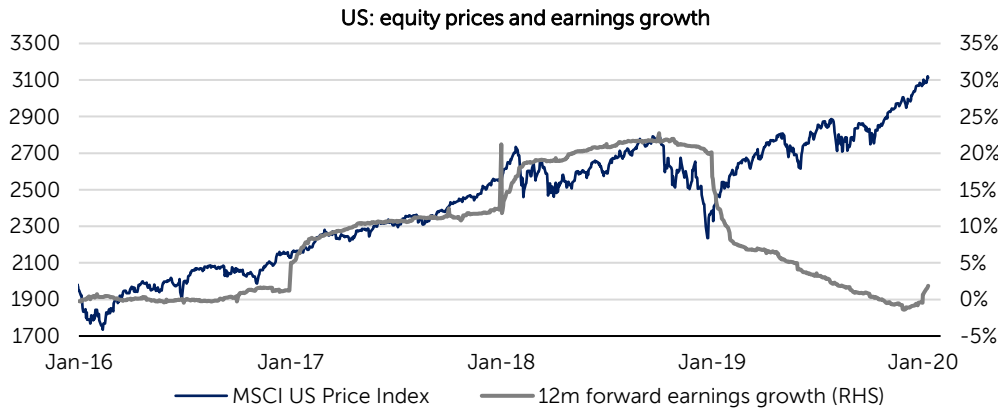
<sup>2</sup> <https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200127-sitrep-7-2019--ncov.pdf>

**Exhibit 1: Performance of MSCI World Index subsequent to the outbreak of epidemics**

Epidemic	Month	1M	3M	6M
HIV/AIDS	Jun-81	-0.46	-4.64	-3.25
Pneumonic plague	Sep-94	-2.79	-4.67	-4.30
SARS	Apr-03	8.64	16.36	21.51
Avian flu (H5N1)	Jun-06	-0.18	2.77	10.05
Dengue Fever	Sep-06	1.07	7.09	9.68
Swine flu (H1N1)	Apr-09	10.9	19.73	39.96
Cholera	Nov-10	-2.35	7.02	13.61
MERS	May-13	-0.29	2.15	8.58
Ebola	Mar-14	-0.09	2.37	4.37
Measles/Rubeola	Dec-14	-1.71	1.92	2.29
Zika	Jan-16	-6.05	-0.88	-0.57
Ebola	Oct-18	-7.42	-13.74	-3.49
Measles	Jun-19	6.46	4.51	12.02
<b>Average</b>		<b>0.44</b>	<b>3.08</b>	<b>8.50</b>

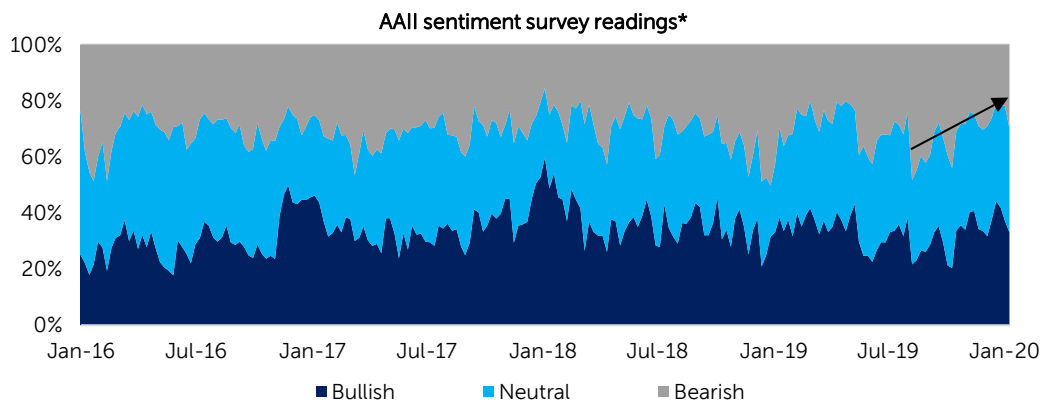
Source: Dow Jones Market Data, Charles Schwab, Bloomberg and ADCB Asset Management

**Exhibit 2: US equity prices, after having been driven by valuations in 2019, are now looking for earnings growth to drive future returns**



Source: Bloomberg and ADCB Asset Management

**Exhibit 3: US equity investors have turned less bearish in recent months**



Source: American Association of Individual Investors, Bloomberg and ADCB Asset Management | Notes: \*Since 1987, AAII members have been answering the same simple question each week. The results are compiled into the AAII Investor Sentiment Survey, which offers insight into the mood of individual investors. Data represents what direction members feel the stock market will be in next 6 months.

## Sources

---

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

## Disclaimer

---

ADCB Asset Management Limited ("AAML"), is a member of ADCB Group, licensed by Financial Services Regulatory Authority in Abu Dhabi Global Markets under financial services permission number 170036.

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige ADCB Group to enter into any transaction.

The content of this publication should not be considered as legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication. Investment products are not available to US persons.

Information and opinions contained herein is are based on various sources, including but not limited to public information, annual reports and statistical data that AAML considers accurate and reliable. However, AAML makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for customers who are either retail or professional investors.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. AAML expressly disclaims any obligation to update or revise any forward looking statement to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication. Opinions expressed herein may differ from opinions expressed by other businesses or affiliates of ADCB Group.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Group. They are subject to investment risk, including possible of loss of principal amount invested. This publication may not be reproduced or circulated without ADCB Group written authority. The manner of circulation and distribution may be restricted by law or regulation in certain jurisdictions. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.