

# Global Insight

## Focus Article

### Coronavirus: An outbreak of uncertainty

How is the scope of the outbreak evolving, and to what extent could the coronavirus sap Chinese and global economic growth?

Eric Lascelles



**For important and required non-U.S. analyst disclosures, see page 7**

All values in U.S. dollars and priced as of February 28, 2020, market close, unless otherwise noted.

**Produced: Mar 3, 2020 10:55ET; Disseminated: Mar 3, 2020 16:13ET**

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.



Wealth  
Management

# Coronavirus: An outbreak of uncertainty



Eric Lascelles  
Toronto, Canada  
eric.lascelles@rbc.com

As new clusters of coronavirus cases pop up around the world, an outburst of volatility and concerns are running through markets. RBC Global Asset Management’s Chief Economist Eric Lascelles looks at how the scope of the outbreak is evolving and to what extent the coronavirus could sap Chinese and global economic growth.

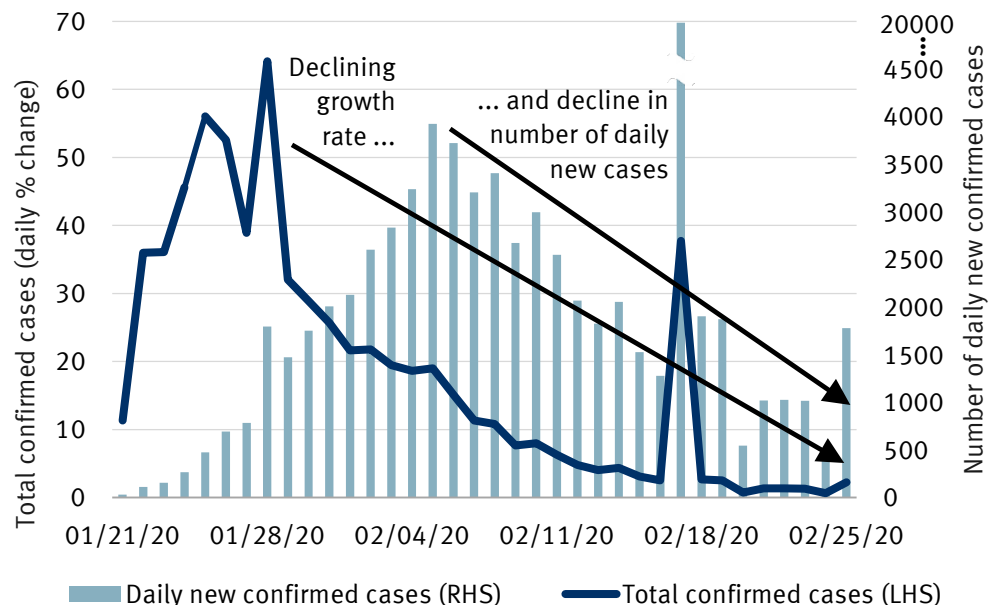
- The coronavirus is straining supply chains of companies worldwide as Chinese factories continue to operate well below normal capacity.
- China seems set to absorb the bulk of the economic impact from the coronavirus, followed by the Asia region. But virus-related disruptions will slow global growth, and the spread of the disease outside of China is raising additional risks.

The coronavirus (COVID-19) has again put fear into the heart of financial markets as the focus shifts from what appear to be diminishing risks within China to rapidly rising risks outside of the country, including to other major economies.

## New cases in China are shrinking ...

The daily growth rate of COVID-19 cases has shrunk to just 579 on Mar. 1 in China, almost seven times less than the Feb. 5 peak. The daily growth rate in percentage

## The spread of COVID-19 within China is slowing



Eric Lascelles is the Chief Economist for RBC Global Asset Management Inc. He maintains the firm’s global economic forecast and advises its portfolio managers on key themes and risks. He is also a frequent media commentator on global economic and financial trends, appearing regularly on CNBC, Bloomberg, and other networks.

Note: The spike on 2/17/20 is due to a change in reporting methodology.  
Source - WHO, RBC Global Asset Management; data as of 2/25/20

terms has declined to just 0.7 percent (the peak was a gargantuan 85 percent in late January).

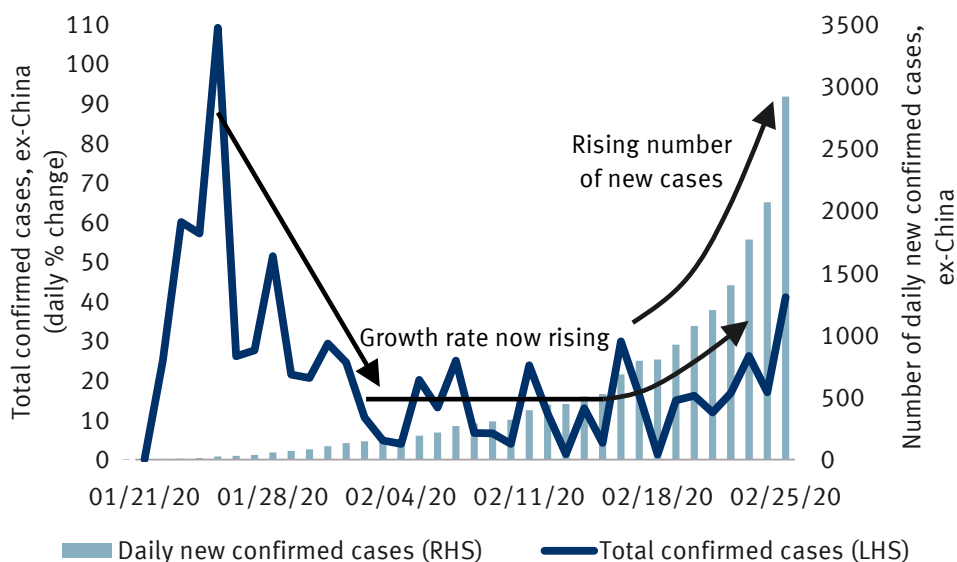
In fact, on a net basis, there are now more Chinese each day being declared newly free of the disease than are acquiring it. Fully 29 Chinese provinces and other administrative divisions—including Shanghai—reported no new cases in the latest data. President Xi Jinping has now called for a resumption of economic activity. Of course, it is possible that this tentative reset could drive the infection rate back up.

### ... but are things just getting started outside of China?

In contrast, the growth rate outside of China is still far from tamed. The number of new cases in the rest of the world jumped recently, with 3,505 added during the three days ending Mar. 1. Those new cases represent almost 50% of the total confirmed cases outside of China.

Granted, the disease made its way outside of China with a lag, so it makes sense that it is yet to be resolved in other countries. Furthermore, China is still host to the great majority of the overall cases. But China's caseload growth was already beginning to slow after two weeks, whereas there is no sign yet of a peak in the rest of the world.

### Increasing COVID-19 global cases (ex-China)



Source - WHO, RBC Global Asset Management; data as of 2/25/20

Outside of China, several countries are capturing particular attention:

- South Korea:** The country suddenly exploded to 3,736 cases, with 18 fatalities as of Mar. 1. The bulk of the cases have been acquired domestically, rather than via direct travel to China. The country placed some 7,000 soldiers under quarantine after a handful tested positive for the disease. We assume significant near-term economic damage to South Korea.

- **Japan:** Until recently, Japan had the highest caseload outside of China, though much of this was from a quarantined foreign cruise ship (695 cases). Nevertheless, even without that group the country maintains 239 cases and is especially vulnerable not merely by virtue of its proximity to China but also due to its large elderly population (the disease disproportionately targets the old and infirm). We assume modest near-term economic damage to Japan.
- **Iran:** The country has been a source of concern since a Canadian was reported to have contracted the disease in Iran rather than China, and the country has since admitted to 593 cases (though the official tally of 43 deaths suggests a considerably larger overall pool of infected). Schools, theaters, and sporting events have been reportedly shut down.
- **Italy:** Lastly, and further hinting at the highly contagious nature of the disease and its ability to seemingly pop up nearly anywhere, Italy has suddenly leaped from three cases on Feb. 21 to 1,128 cases on Mar. 1, with 29 deaths reported. These cases are clustered within a region of 10 towns not far from Milan. Italy is attempting to impose a strict quarantine.

While wealthy countries have stronger health care systems, they also tend to be older—a predictor for the severity of infection. The U.S. and Canada find themselves slightly better off in this regard than Europe and Japan.

## Coronavirus context

COVID-19 continues to progress according to our initial expectations: the fatality rate remains low, about 3.5 percent (2,977 deaths out of 87,137 confirmed cases globally), and the disease has proven highly contagious, as evidenced by the aforementioned cross-section of affected nations.

Perhaps the only twist is the extent to which the fatality rate has thus far proven highly variable. Outside of China's Hubei province, the epicenter of the epidemic, the fatality rate appears to be considerably less.

Furthermore, the virus appears to discriminate aggressively based on age. The fatality rate so far is zero percent for young children, just 0.2 percent for those aged 10–39, and then incrementally rises to a large 14.8 percent for those aged 80-plus. For those below middle age, thus far it is arguably no more dangerous than the ordinary flu. For the elderly, it can be deadly.

All of this said, a point of comparison provides some calming context. The U.S. alone expects roughly 18 million cases of the flu this season. Even with a tiny fatality rate, this adds up to 14,000 anticipated deaths. Last year was unusually bad, with roughly 80,000 deaths in the U.S. alone. It would take a remarkable surge for the coronavirus to induce death on that scale, and yet we accept the annual fatalities associated with the flu with barely a remark.



## China's economy in quarantine

Even as the caseload growth in China has slowed, businesses have remained shuttered to an even greater extent than we had initially envisioned. Surveys suggest Chinese businesses continue to operate well below their normal capacity a full five weeks since the virus began to significantly impede economic activity.

Even though we assume an incremental return to business over the coming weeks, it is hard for us to see Chinese GDP growth operating much above 5.0 percent in 2020. This is down from our prior forecast of 5.6 percent. Absent the virus, we would have forecast 5.9 percent growth for the year, slightly lower than the 6.1 percent rate in 2019.

At a more detailed level, it seems nearly certain to us that Chinese Q1 GDP growth on a quarterly basis will be substantially negative, and there is a good chance that year-over-year GDP growth will also be temporarily negative for the quarter before rebounding in later quarters. The monthly data in January and February will likely be particularly dismal, with property sales down by more than 90 percent already.

The Chinese government has already leaped into action with monetary stimulus and improved credit growth. One reason that our forecast has an uncertain tinge is that the Chinese government may not reveal the true depth of the economic weakness.

## Infecting the global economy?

China seems set to absorb the bulk of the economic impact from the coronavirus, followed by the Asia region, but virus-related disruptions also will slow global growth.

We have shaved a cumulative 0.4 percentage points off our global growth forecast—0.2 percentage points more than the prior estimate. This would leave global growth expanding at a meek 2.9 percent in 2020.

A worst-case scenario would have COVID-19 ping-ponging around the world, forcing companies to shutter and impacting supply chains on a nearly worldwide basis. It is unlikely to be quite that extensive, in our view, but the coming weeks will reveal much and containment is no easy task.

Scenarios abound as to how the virus may ultimately be contained, be it warmer spring weather naturally dampening the disease, the possibility of lower fatality rates in the developed world that render it merely a super flu, or the eventual development of a vaccine.

# Research resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC Wealth Management Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's investment advisors / financial advisors who are engaged in assembling portfolios incorporating individual marketable securities. The Committee leverages the broad market outlook as developed by the RBC Investment Strategy Committee, providing additional tactical and thematic support utilizing research from the RBC Investment Strategy Committee, RBC Capital Markets, and third-party resources.

## **Global Portfolio Advisory Committee members:**

Jim Allworth – Co-chair; Investment Strategist, RBC Dominion Securities Inc.

Kelly Bogdanova – Co-chair; Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

Frédérique Carrier – Co-chair; Managing Director & Head of Investment Strategies, RBC Wealth Management, RBC Europe Limited

Mark Bayko, CFA – Head, Portfolio Management, RBC Dominion Securities Inc.

Janet Engels – Head of Portfolio Advisory Group U.S., RBC Wealth Management, RBC Capital Markets, LLC

Thomas Garretson, CFA – Fixed Income Senior Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Christopher Girdler, CFA – Fixed Income Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Patrick McAllister, CFA – Canadian Equities Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – Equities, RBC Dominion Securities Inc.

Alan Robinson – Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group – U.S. Equities, RBC Capital Markets, LLC

Michael Schuette, CFA – Multi-Asset Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group – U.S., RBC Capital Markets, LLC

Alastair Whitfield – Head of Fixed Income – British Isles, RBC Wealth Management, RBC Europe Limited

The RBC Investment Strategy Committee (RISC) consists of senior investment professionals drawn from individual, client-focused business units within RBC, including the Portfolio Advisory Group. The RISC builds a broad global investment outlook and develops specific guidelines that can be used to manage portfolios. The RISC is chaired by Daniel Chornous, CFA, Chief Investment Officer of RBC Global Asset Management Inc.

## **Additional Global Insight authors:**

Eric Lascelles – Chief Economist, RBC Global Asset Management Inc.

# Required disclosures

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Important Disclosures

In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

Non-U.S. Analyst Disclosure: Jim Allworth, Mark Bayko, Christopher Girdler, and Patrick McAllister, employees of RBC Wealth Management USA's foreign affiliate RBC Dominion Securities Inc.; Frédérique Carrier and Alastair Whitfield, employees of RBC Wealth Management USA's foreign affiliate RBC Europe Limited; Eric Lascelles, an employee of RBC Wealth Management USA's foreign affiliate RBC Global Asset Management Inc.; contributed to the preparation of this publication. These individuals are not registered with or qualified as research analysts with the U.S. Financial Industry Regulatory Authority ("FINRA") and, since they are not associated persons of RBC Wealth Management, they may not be subject to FINRA Rule 2241 governing communications with subject companies, the making of public appearances, and the trading of securities in accounts held by research analysts.

In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2> to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 60 South Sixth St, Minneapolis, MN 55402.

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a

security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets, LLC ratings of Top Pick/Outperform, Sector Perform, and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

## Explanation of RBC Capital Markets, LLC Equity Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Top Pick & Outperform]	765	51.97	225	29.41
Hold [Sector Perform]	625	42.46	127	20.32
Sell [Underperform]	82	5.57	5	6.10

**Ratings: Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio. **Outperform (O):** Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. **Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

**Risk Rating:** The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

## Valuation and Risks to Rating and Price Target

When RBC Wealth Management assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled “Valuation” and “Risks to Rating and Price Target”, respectively.

The analyst(s) responsible for preparing this research report have received (or will receive) compensation that is based upon various factors, including total revenues of RBC Capital Markets, LLC, and its affiliates, a portion of which are or have been generated by investment banking activities of RBC Capital Markets, LLC and its affiliates.

## Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management or a designated third party will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

**Conflicts Disclosure:** RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management’s Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our website at <https://www.rbccm.com/GLDisclosure/PublicWeb/Disclo->

[sureLookup.aspx?EntityID=2](#). Conflicts of interests related to our investment advisory business can be found in Part 2A Appendix 1 of the Firm’s Form ADV or the RBC Advisory Programs Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part 2A Appendix 1 of the Form ADV, or the RBC Advisory Programs Disclosure Document at any time.

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA; by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada; by RBC Investment Services (Asia) Limited, a subsidiary of RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Hong Kong, China; by Royal Bank of Canada, Singapore Branch, a licensed wholesale bank with its principal office located in Singapore; and by RBC Europe Limited, a licensed bank with principal offices located in London, United Kingdom.

## Third-party disclaimers

The Global Industry Classification Standard (“GICS”) was developed by and is the exclusive property and a service mark of MSCI Inc. (“MSCI”) and Standard & Poor’s Financial Services LLC (“S&P”) and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

References herein to “LIBOR”, “LIBO Rate”, “L” or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

## Disclaimer

The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management’s judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including



clients who are affiliates of Royal Bank of Canada, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither Royal Bank of Canada nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of Royal Bank of Canada in each instance. In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC. Additional information is available upon request.

**To U.S. Residents:** This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

**To Canadian Residents:** This publication has been approved by RBC Dominion Securities Inc. RBC Dominion Securities Inc.\* and Royal Bank of Canada are separate corporate entities which are affiliated. \*Member-Canadian Investor Protection Fund. ®Registered trademark of Royal Bank of Canada. Used under

license. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under license.

**RBC Wealth Management (British Isles):** This publication is distributed by RBC Europe Limited and RBC Investment Solutions (CI) Limited. RBC Europe Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FCA registration number: 124543). Registered office: Riverbank House, 2 Swan Lane, London, EC4R 3BF, UK. RBC Investment Solutions (CI) Limited is regulated by the Jersey Financial Services Commission in the conduct of investment business in Jersey. Registered office: Gaspé House, 66-72 Esplanade, St Helier, Jersey JE2 3QT, Channel Islands, registered company number 119162.

**To Hong Kong Residents:** This publication is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ('SFC'), and RBC Investment Services (Asia) Limited, which is regulated by the SFC.

**To Singapore Residents:** This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

© 2020 RBC Capital Markets, LLC – Member NYSE/FINRA/SIPC

© 2020 RBC Dominion Securities Inc. – Member Canadian Investor Protection Fund

© 2020 RBC Europe Limited

© 2020 Royal Bank of Canada

All rights reserved

RBC1524