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What's the game plan for the stock market downturn caused primarily by the coronavirus (COVID-19)?

Sent to clients on March 10, 2020

Dear client

This morning I was reading an article from La Presse on the coronavirus, some excerpts of which are given below. This article was updated on March 9, 2020 at 11:11 a.m. by Gildas Le Roux of Agence France-Presse.

PHOTO MIGUEL MEDINA, AGENCE FRANCE-PRESSE
A few tourists sitting on the terrace of the Via Orefici café in the centre of Milan.

The coronavirus epidemic exceeded on Monday (March 9, 2020) the threshold of 110,000 infected people in the world, aggravating the market crisis and heightening fears that the disease, which paralyses part of Italy and China, will have a lasting effect on the world economy.

In New York, at the close of the markets (16:00), the S&P 500, which is the leading index in the USA, stood at 2746, down 7.6% since the previous day, down 15.0% since the beginning of 2020 (YTD) and down 19% since its peak. A 20% drop is considered a Bear Market whereas corrections of +/-10% occur almost every year and are considered normal and predictable.

Since the beginning of the year, the major European markets have lost between 18 and 20%.

At the beginning of the day Asian stock markets had also fallen, followed by those in the Gulf, as the acceleration of the epidemic added to the collapse of oil prices caused by a Russian-Saudi price war.

Thus, in addition to the concern about the impacts caused by the coronavirus, the failure of negotiations between OPEC and Russia added to the concern. This failure led Saudi Arabia to abandon a strategy of price support in favour of a market share approach, creating strong pressure on the price of oil. Indeed, Saudi Arabia, in important oil exporter, plans to increase its crude production to more than 10 million barrels a day (BPD) in April, two sources told Reuters on Sunday. The production increase by Saudi Arabia from April puts downward pressure on a barrel of oil against a backdrop of slowing demand for oil (plausible due to reductions in people's travel).

For its part, the European Central Bank on Thursday may deploy a range of support measures in the Euro zone, while the IMF called for a "coordinated international response" to mitigate the economic impact of the epidemic.

In France, the impact on the economy is expected to be several tenths of a percentage point of GDP, according to Economy Minister Bruno Le Maire.

For its part, the German government has announced a package of measures to counter the economic effects of the epidemic.

While China seems to be coming out of the rut with only 22 deaths in 24 hours (3,119 since December) and a daily number of contaminations (40) at its lowest level since January, other countries have seen the number of deaths and cases jump and are multiplying measures to try to contain the disease.

Italy, now the most affected country after China with 366 deaths and 7375 cases, placed a quarter of its population under quarantine on Sunday.

The Chinese province of Hubei, where the epidemic began in December, had taken similar measures, including quarantining 56 million people.

South Korea, the third worst-affected country, announced Monday its lowest daily number of new infections (248) in two weeks, bringing the total to 7,382, including 51 deaths.

France, the fifth most affected country with more than 1,100 cases (19 deaths), has banned gatherings of more than 1,000 people.

In Germany, where the government also called for a ban on gatherings of more than 1,000 people, the threshold of 1,000 cases was exceeded on Monday.

In contrast, the Shanghai Disneyland complex partially reopened on Monday. In Wuhan, by far the country's most contaminated city, 14 of the 16 open field hospitals have already been closed, the China News agency reported.

No one knows precisely the ultimate impact of the contagion and the full impact on economic activity. A recession is not ruled out although few strategists and economists predict a recession in 2020. We do not know when the stock markets will end their descent (floor) and the floor of stock indices often follows a phase of capitulation by investors. Analyses claim that we have not yet reached this phase of capitulation.

Therefore, in the current context, the best strategy is to stay invested in stocks according to your investor profile because when stock market indices make a turnaround, the recovery phase can be very quick. A recent example is the fourth quarter of 2018. The S&P 500 index was down 20% on December 26, 2018 (level of 2345) compared to the peak of 2940 reached on September 14 of the same year. However, the loss was recouped in only 4 months as the S&P 500 was trading back at 2940 on April 26, 2019.

If you have any concerns or questions, however, do not hesitate to contact me.

I look forward to hearing from you in the future.

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