Dave Lafferty, Chief Market Strategist, Natixis Investmentmanagers zum Coronavirus

- We're all guessing at the effects because tracking infectious diseases doesn't track well to macroeconomic outcomes.
- Without any relevant history, investors will map the spread and consequences against the SARS outbreak in 2003. This may be a poor template as both China and the rest of the global economy look very different 17 years later.
- One week in, the economic damage from the outbreak is already beginning to accrue: Cancelled flights, quarantined cities, factories closed, events postponed. For now, the economic loss has largely been contained to China, but will likely ripple out in the coming weeks.
- Most of the economic damage from outbreaks comes from deferred consumption. Most, but not all, of the activity will catch up. How much of the loss is temporary versus permanent will depend on how long the crisis lasts.
- The outbreak is hitting China at an inopportune time. China growth is naturally slowing, but at a very natural and managed rate. With China only growing 6%, an outbreak that shaves 1% -2% off GDP (annualized) represents a serious headwind. Again, how much of that economic loss will be recovered depends on how long and how severe the outbreak is. If policymakers and health officials can't slow the spread, -2% could prove optimistic. (Again, at an annualized rate).
- If economic growth slows significantly, the big policy tools are ill-fitted to the job. Monetary policy acts with a significant lag and longer fiscal spending isn't well suited to addressing a slowdown that might only last a few months. While healthcare workers scramble and work overtime, policymakers can do little except for provide liquidity and watch.
- We expect the recently inked Phase 1 Trade deal to have little meaningful impact on China, so the headwinds from the outbreak don't offset the gains. We're skeptical there will be gains to offset. The outbreak looks like a net loss.
- We expect the economic damage to center on China and radiate out from there. The market seems to agree as the Hang Seng index is down over 6% since the outbreak while the S&P 500 and Eurostoxx 50 are down less than 2%. Markets in the US and Europe are on alert, but they are not yet panicked.
- Fed Chairman Powell referenced the outbreak, but US markets seem unfazed. The Fed has plenty of ammo in the near term if the outbreak becomes a greater headwind to US growth. We'll find out tomorrow if Mr. Carney at the BOE feels the same.
- For now, we see the coronavirus outbreak as a brief and modest shock to global growth – one that is unlikely to derail the broad economy in 2020. Investors should be on the look-out for long term values if equity weakness continues.
- The outbreak is perhaps a convenient excuse to take gains in markets that were significantly over-bought in early January, but for now, the outbreak is unlikely to be the knock-out punch for this 10-year bull market.