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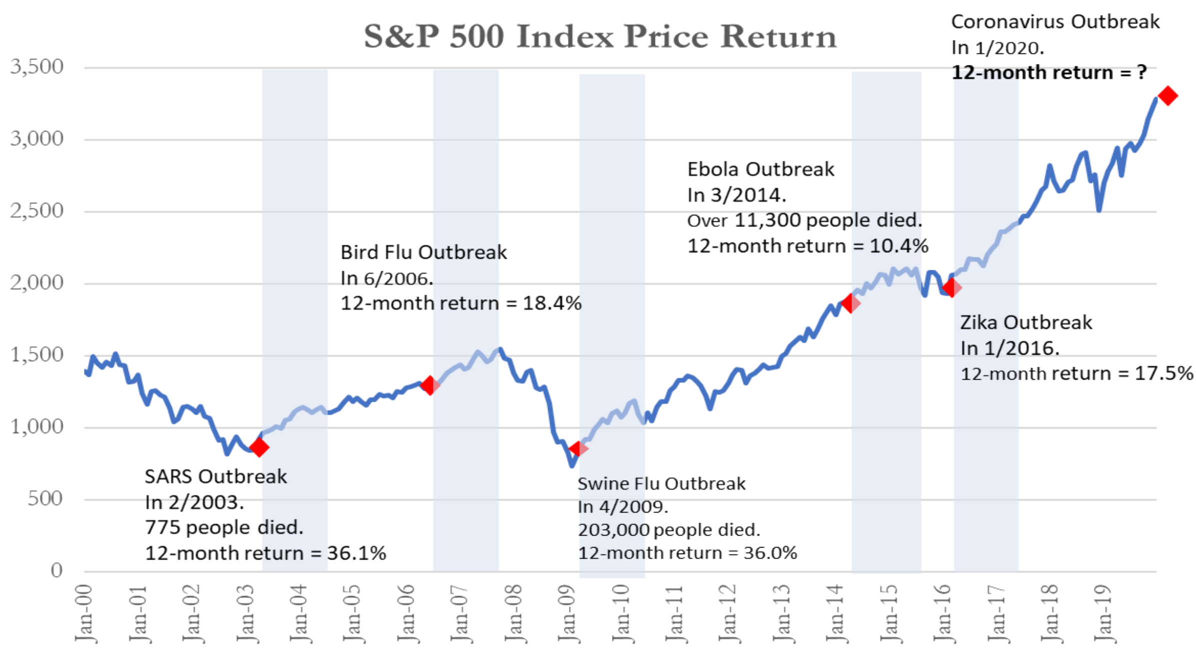
Is the Stock Market Immune to Coronavirus?

The spread of China's coronavirus is providing investors with another reason for caution. The S&P 500 Index gave up earlier gains and closed down by 0.9% on Friday last week as the CDC confirmed a second US case of the disease in Chicago. Over the weekend, the coronavirus cases continued to rise. There are 2,862 confirmed cases so far in China and the death toll in China has risen to 81. In the U.S., a fifth case of coronavirus was confirmed.

How did the market perform during epidemics like this?

- The stock market was quite immune to the epidemics in the last two decades.
- Swine Flu outbreak in 2009 was the worst pandemics which claimed over 200k lives worldwide and 4k lives in the US alone. However, the S&P 500 Index rose 36% in the 12 months after the outbreak started in April 2009.



Data Source: FactSet

Possible impacts of this latest outbreak:

- Some economists estimated that the outbreak could lower China's GDP growth by 1%. The impact on the US economy would be minimal as US growth is more dependent on domestic demands. The world economy, as a whole, may slow further because China has been a major driver.
- Market sentiment may be negatively impacted if the virus continues to spread to the US, especially when the market level and valuation are at current lofty levels.
- Industries related to travel or tourism such as airlines and hospitality may be hurt the most.
- International and emerging market stocks may have more downside as their economies are more related to China.

- Market performance is always driven by fundamentals like corporate earnings, interest rates and the state of the economy. Now we are at the beginning of the outbreak. Whether it can change the current fundamentals remains to be seen.
- Historically, the epidemics did not have much of an impact on the underlying economic fundamentals, but there will be more short-term market volatility.