

### Q: Have markets overreacted to Coronavirus?

**Brian Lockhart, CFP®:** I think it is going to take more time to determine if the markets have overreacted or underreacted to 2019-nCoV, the technical name of the respiratory virus that began in Wuhan, China. Anytime an unsystematic risk like disease or war occurs, there tends to be the initial knee jerk reaction to the market of selling. The markets today are particularly vulnerable to unsystematic risk because valuations are stretched (extreme to some analysts) and many investors appear to be looking for a reason for profit taking after the tremendous run up in equity prices in 2019.

The 2003 SARS scare is the closest comparison to 2019-nCoV medically. To compare the market's response back then to today's environment is extremely difficult. SARS began in February 2003 and it took approximately 6 months to contain the virus. From the first case of SARS to the market bottom was only about 6% and six months later at full containment the market had actually gained 12%. However, February 2003 the markets had just tested the October 2002 low in the S&P 500 and were essentially at the bottom of the tech crash that began in late 1999. We are in an entirely different market environment today and it would be foolish, in my opinion, to try and draw too many conclusions. Time will tell what the proper response "should" be, but discretion may be the better part of valor.

**Clint Pekrul, CFA:** We've certainly seen a pick up in volatility across the global equity markets, and much of it is due to the outbreak of the coronavirus in China. We've drawn comparisons to past outbreaks like H1N1 and SARS in 2003. The markets were somewhat shaken by these events, similar to what we are seeing today. I think what is different now, however, is that China's involvement in the global economy is much larger. Based on data from the IMF, China represents roughly 20% of the world's GDP, compared to roughly 7% in 2000. So, when a viral outbreak hits China, the economic impact could be substantial.

Chinese officials have already limited travel within the outbreak region, which coincides with the Lunar new year. Factories have been shut down, and travel restrictions will dampen holiday spending. But overall, for now, the outbreak doesn't seem to present a systemic risk to global markets. My guess is that we might see a few more moves to the downside as the extent of the outbreak becomes clearer. But eventually the outbreak will be contained and markets will move forward.