



## Market update: coronavirus in perspective

The steep stock selloff that started Monday intensified Tuesday, with market participants attributing the decline to heightened fear over continued spread of the coronavirus. As of this writing, the Dow Jones Industrial Average and the S&P 500 today have plunged about 3.0%, with the S&P/TSX Composite down about 1.8%. The 10-year U.S. Treasury yield meanwhile dropped to its lowest historical level as investors piled into the safe-haven trade.

An official from the U.S. Centers for Disease Control and Prevention told reporters Tuesday that Americans should prepare for the “possibility that their lives will be disrupted,” according to MarketWatch. Still, after a spike in cases in Italy, Iran, and South Korea, the World Health Organization has not yet declared the virus a pandemic.

Will we see more of the same tomorrow? Or will we see a massive rebound? No one knows. No one *can* know.

In the last edition of our Monthly Market Monitor, published in early February, we said this:

“It is too early to estimate the full economic impact [of the coronavirus], but there are reasons investors shouldn’t panic. First, we are seeing much more of a global coordinated effort this time in terms of dealing with the outbreak. Second, the mortality rate so far is only about 2% [Editor’s note: reports vary, but as of Feb. 25, China’s mortality rate is estimated at between 3% and 4%], compared to 10% for SARS and over 50% for Ebola. Last and most importantly, epidemics typically don’t have a prolonged market impact, as shown in the chart below.”

Global epidemics v.s. MSCI World Index



Source: Bloomberg. Data as of January 31, 2020.



## NEI Market Update

The bottom line is, no one will benefit from selling their investments in a panic because of a few rough days. It may be scary while you're in the middle of it, but history demonstrates (again, and again, and again) that global disease outbreaks have very little effect on the market, certainly over the medium to long term.

The appropriate course of action for investors is to stick the plan, maintain a well-diversified portfolio, and look to decades of (positive) market history for comfort.

Our investment team observes that in times like this it's perfectly acceptable to be "boring." Portfolio Manager Yufei Man points out that our tactical positioning is currently "completely balanced." He says, "NEI's investment approach is guided by a disciplined asset allocation framework that looks past daily market volatility. Back in early January, before the outbreak, our tactical call was already more defensive. Yes, the fear has escalated this week and investors are more anxious – but directionally, nothing has changed. As always, we stand by to adjust our portfolios as market conditions warrant."

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