TAKING STOCK: CHINA IN THE TIME OF CORONAVIRUS (COVID-19)

Eumene Lee, Research Consultant, Asset Allocation

BLOG POST

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Growing up in China, for as long as my wife can remember, the Chinese New Year was the most important—and longest—holiday. Excited to celebrate this special occasion with her family, we headed to Guangzhou a week ahead of the festivities in January. The nearly 20-hour travel from Boston and the unavoidable jet lag seemed to dissipate in the face of the barely contained excitement that we encountered at every corner: bustling malls, overflowing restaurants, thriving residential neighborhoods and blooming flower markets were all decked out in red—the Chinese color of good luck and prosperity—in anticipation of the imminent celebrations.

Traditionally, Chinese New Year, or the Spring Festival, marked the end of winter and a time to pray to the gods for a plentiful harvest. Legend also says that a monster would appear every New Year's Eve to terrorize people until one old man's brave act of bursting firecrackers scared it off. Ever since, firecrackers have been an integral part of the festivities. It didn't take us long to realize that this year, it would take more than fireworks to ward off threats: a few days ahead of the Chinese New Year, the mood changed. It was as if a switch had been turned off. Elation gave way to fear. Crowded thoroughfares were replaced by desolate streets. It seemed the country (and us) had underestimated the threat from the new coronavirus that initially appeared in December in Hubei's provincial capital of Wuhan (1000km north of Guangzhou). As it spread to the rest of the country and beyond, casualties of the coronavirus surpassed the 2002-03 SARS epidemic.

In the face of this deadly outbreak, the Chinese government intensified efforts to contain the fallout from the virus as large swaths of the population were quarantined and its health systems were stretched to breaking point. In my wife's hometown of Guangzhou, which is no stranger to epidemics—Guangdong province was the epicenter of the SARS outbreak almost two decades earlier—people donned masks for protection as coverage of the coronavirus dominated the news. A local pharmacy even put up a sign, "Masks, sold out; Viagra, on sale," as people were encouraged to stay home, local businesses remained shuttered, and public modes of transport ran on restricted schedules. Scanners for taking body temperature were set up at most subway stations in addition to mandatory temperature checks before boarding city buses.

As news broke of a quarantine in the Hubei province, people began stockpiling food and essentials amid concerns of a broader seclusion that thankfully didn't come to pass. We spent the rest of our trip venturing out only for necessities and family gatherings. Even though many scheduled public festivities around the Chinese New Year were cancelled or postponed, it was still amazing to see some firework displays, whether they were planned or not.

As our time in Guangzhou came to an end, we grew increasingly anxious about returning home to the United States. Thankfully, other than a couple of additional queues at the airports in Guangzhou and Hong Kong for health evaluations, my family and I made it home safely and in good health. I remain worried for the family we left behind. As I settle back into my job as an investment consultant, I'm also concerned of the contagion's economic toll—with its adverse effects on consumption, tourism and productivity—at a time of already slowing growth.

At NEPC, we expect continued volatility in capital markets given the uncertainty in the near term. While we anticipate anemic growth in China in the first quarter, we believe the economic consequences will be in line with the fallout from most natural disasters, causing a temporary disruption with minimal long-term impact. While comparisons to the SARS epidemic are inevitable, we acknowledge that the Chinese economy is nearly 10 times larger in US dollars than it was in 2003, with consumption playing a more meaningful role in the economy. As such, we anticipate a sharper drag on the economy in the near term.

We encourage investors to consider the relatively supportive macroeconomic backdrop: accommodative global monetary policy, relatively stable economic data, and thawing trade relations between the US and China. To this end, we remain constructive on emerging market equities given their attractive long-term fundamentals and advise investors to evaluate opportunities to rebalance equity exposure should larger short-term dislocations occur. While the emergence of the coronavirus disease 2019 (COVID-19) poses a challenging global health crisis, the number of current COVID-19 cases offers a sobering contrast to the global annual influenza epidemic and the resulting impact on human life and economic activity. That said, the health situation in China and beyond to contain COVID-19 is an ongoing situation. As always, we will continue to monitor the situation and will communicate any changes in our views. Stay tuned for further developments.

-- Jennifer Appel, Senior Research Analyst, Asset Allocation contributed to this piece

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BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO
255 State Street, Boston, MA 02109 | P. 617.374.1300 | F. 617.374.1313
www.nepc.com