Coronavirus creates chaos in the investment markets

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Although the investment world continues to assess the long-term impact of the coronavirus (formally known as COVID-19), the obvious short-term impact has been a decline in stock prices, oil prices and bond yields.

The virus has spread well beyond the borders of China and the Far East, with nearly 30 countries outside of China reporting confirmed cases of COVID-19, including the U.S., western Europe, Iran, and Latin America.

Manufacturing firms feel the hurt

Beyond the investment markets, we've seen the epidemic affect businesses well beyond China. Supply chain disruption is among the chief concerns. Many suppliers of goods for both end-products and components of production systems are based in China and the Far East. As a result, companies in the United States and abroad are finding it increasingly difficult to source inventory or parts necessary to manufacture their products:

- Apple recently announced that production and supply of its products are being constrained and sales have fallen sharply, particularly in China.
- More than a third of S&P 500 companies have reported the potential for some impact from the COVID-19 virus on the outlook for 2020, indicating that the specific impact is too difficult to quantify until greater clarity on the extent of the epidemic can be defined.

Short-term impact

The short-term economic impact continues to be real. Global economic output will be negatively impacted by the virus and the actions taken to stem the spread. Until there is confirmation that the virus has been contained, it will be impossible to fully quantify its full effect.

The growing crisis has had a significant impact on several areas of the economy:

- Oil prices have dropped by more than 20% since the outbreak began in January, as global travel has slowed.
- Gold and government bonds have been on the rise as investors have looked for a safe haven for their money. As the bond market has heated up, yields have plunged. The yield on 10-year U.S. Treasuries has dropped to an all-time low of under 1.3%.
- Stocks have experienced a steep drop, with the S&P 500® falling nearly 10% off its 2020 high. (The S&P 500 is a market-cap-weighted index that represents the average performance of a group of 500 large capitalization stocks).

It should be noted, however, that while stocks have dipped dramatically in the short-term, they are still well ahead of their level of a year ago. Even after a drop of nearly 10%, the S&P 500 was still more than 15% above its level at the beginning of 2019.

Long-term perspective

At some point, the spread of the virus will be contained, just as it was for other epidemics and pandemics. At that point, we believe it is highly likely that economic activity will rebound, perhaps sharply, as spending that was either delayed or deferred resumes, production recovers and inventories are restocked.

In the meantime, financial markets will likely continue to be volatile and will continue to react to the incremental news headlines related to the expansion or containment of the disease. No doubt, risks to both the economic and equity market outlook have increased, but, in the absence of a recession, any equity market correction related to this event would likely be reversed with positive signs of progress in containing the virus.

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