
Coronavirus Concerns Spread Volatility

 westwoodgroup.com/insight/covid-19-concerns-spread-volatility/



This week, we witnessed a large drop in stock markets alongside oil prices dropping dramatically, while government bond prices seemed to be one of few areas performing well.

So, What Happened?

The major driver was the increasing concern around **Coronavirus (COVID-19)** spreading further outside of China into developed markets, including Italy, Latin America — and now the United States. With a lack of transparency regarding how far the virus is spreading and what the economic impacts are, investors reached for “safe havens” in a big way.

Economically and fundamentally, the initial impact is felt through supply chains, like input goods for making electronics and autos from China. Of course, many are now rethinking travel plans and family cruises — demand-driven economic activity will feel an impact as well. For the markets, what propelled the markets higher in 2019 was the prospect (or hope) of much improved growth in 2020. The emergence of COVID-19 puts a big dent in that hope. At the very least, it pushes back an expected uptrend in economic growth into the latter part of 2020.

What Now?

While the situation is rapidly evolving, we expect to see governments around the world, including the United States, use central banks and fiscal policy to try to support economic activity on the road to a bumpy recovery from this, as we would expect the virus to appear more broadly in Latin America and the United States. This harkens back to what happened with the swine flu and is fueling some concern. Swine flu infected a large portion of the U.S. population but had a very low (comparably) mortality rate — closer to seasonal flu. COVID-19 has a higher mortality rate, which also means that with any expansion in the U.S., authorities will be much more proactive on travel and business restrictions, which will have an impact on domestic economic activity, not just supply chain constraints.

Governments will likely address the situation not only with economic growth-oriented policy, but also with strong resources from the **Centers for Disease Control (CDC)** and the **World Health Organization (WHO)** to combat and contain the virus itself. We expect indications from such agencies to be helpful news sources on overall market behavior.

For economic impact, we'll be watching for data coming from China and other regions, like **Purchasing Manager Indices (PMI)**, to assess the impact on the fundamentals.

We'll continue to assess the individual impact on the earnings of companies we hold, along with sectors and countries we are invested in. We believe it is prudent to own fixed income as part of an overall asset allocation, even at depressed interest rates. Further, we still see a relative value opportunity in emerging markets, considering an outlook of potential policy-driven growth. In developed markets,

security and sector selection is key. Finding securities that are resilient to the impact and poised to benefit from potential policy shifts may be a driver going forward.

We will continue to monitor, assess and provide updates as impacts become more evident and develop.

The information contained herein represents the views of Westwood Holdings Group, Inc. at a specific point in time and is based on information believed to be reliable. No representation or warranty is made concerning the accuracy or completeness of any data compiled herein. Any statements non-factual in nature constitute only current opinion, which is subject to change. Any statements concerning financial market trends are based on current market conditions, which will fluctuate. Past performance is not indicative of future results. All information provided herein is for informational purposes only and is not intended to be, and should not be interpreted as, an offer, solicitation, or recommendation to buy or sell or otherwise invest in any of the securities/sectors/countries that may be mentioned.