

LOOKS LIKE SARS

The number of people suffering from the coronavirus continues to increase every day. Meanwhile, the stock markets are chasing record highs again. How does that fit together?

Stock markets are chasing records again. This may be somewhat surprising, given that the number of coronavirus infections keeps rising and one can only guess what the negative effects on the global economy will be. On the one hand, the direct implications, especially for the Chinese economy, need to be assessed. The imposition of compulsory holidays, travel bans and putting entire regions under quarantine is having a strong negative effect on activity in the first quarter. In addition, forecasts are complicated by cross-border supply chains, which can lead to production cuts due to a lack of intermediate products imported from China.

And yet, equity markets keep rising. To understand this behavior, a look at the experience of the severe-acute-respiratory-syndrome (SARS) crisis in 2003 could be of some help. As shown in our Chart of the Week, the Hang Seng Index, which at the time was closest to the epicenter

of the disease, bottomed out at the end of April, just days before the date at which the reported daily new infections numbers began to decline. A comparison with the current coronavirus epidemic shows an almost identical pattern: The low point for many indices was at the end of January, while the number of new infections reported daily peaked on February 5. The markets have thus almost exactly followed the script from 2003.

As we have outlined on January 29 (see [CIO Flash](#) as of 2/29/20), we would still advocate a cautious stance. However it is probably too early to give an all-clear as the virus is still spreading. The surprising revision of reported cases by 14,800 on February 13, officially justified by a change in diagnostic methods, is a warning that the full extent of the epidemic is still unknown. In addition, as already mentioned, the economic damage cannot yet be fully assessed.



Sources: Refinitiv Datastream, WHO, DWS Investment GmbH as of 2/12/20

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Source: DWS Investment GmbH

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GLOSSARY

The [Hang Seng Index \(HSI\)](#) is a freefloat-adjusted market-capitalization-weighted stock-market index in Hong Kong. It tracks the 50 biggest and most traded companies on the Hong Kong stock exchange.

APPENDIX: PERFORMANCE OVER THE PAST 5 YEARS (12-MONTH PERIODS)

	01/15 - 01/16	01/16 - 01/17	01/17 - 01/18	01/18 - 01/19	01/19 - 01/20
Hang Seng Index	-16.9%	23.3%	46.2%	-12.0%	-2.5%

Past performance is not indicative of future returns.

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 2/13/20

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