



## **Coronavirus: Separating the disease from the market reaction**

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There is a lot that is known about the novel coronavirus (COVID-19) and the outbreak, but there are also many unresolved questions. In this piece, we wanted to provide some perspective on the course of the outbreak, including both what has happened so far and what might still be to come – separating the disease from the market reaction. As a caveat, although I am extremely familiar with the health care sector and have a Ph.D. in molecular biology and biochemistry, I am not a virologist or an epidemiologist, so my views merely represent my opinion as a relatively well-informed market participant and not as a scientist or medical professional.

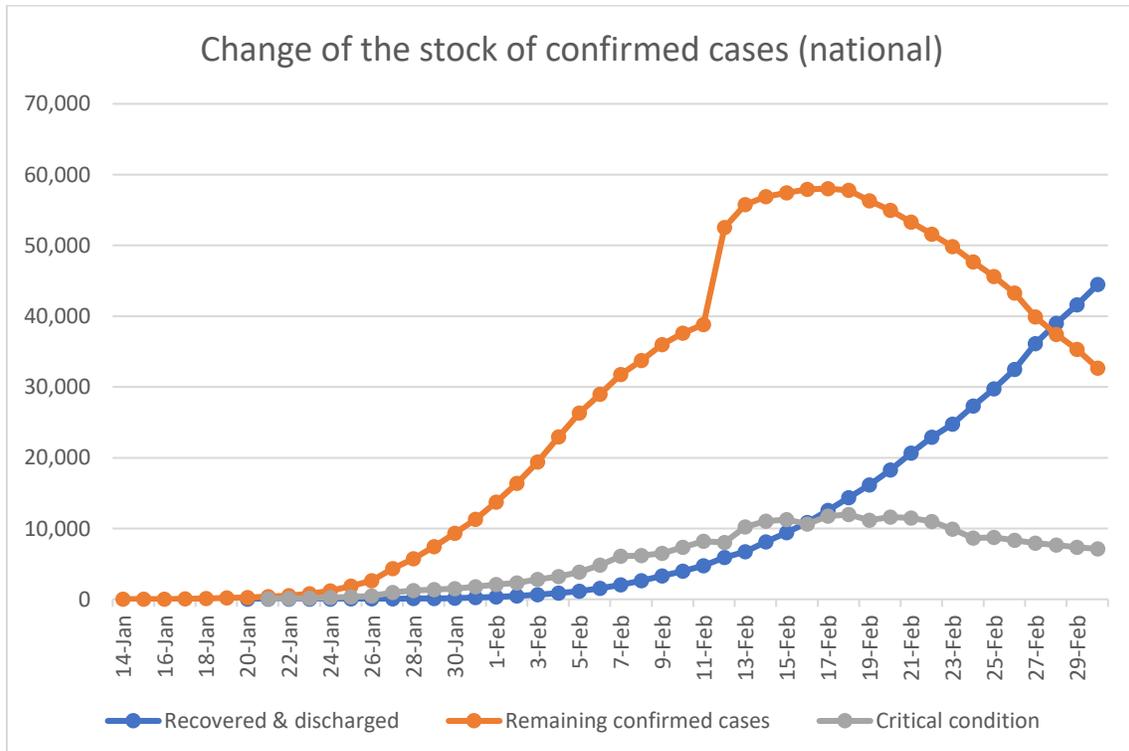
A coronavirus itself is nothing particularly special – it is behind illnesses both benign (some forms of the common cold) and more serious (Severe Acute Respiratory Syndrome (SARS), Middle East Respiratory Syndrome (MERS)). There are currently no vaccines available for a coronavirus and it is unlikely there will be a conventional vaccine ready in time to help with this outbreak (it would more likely be ready in about 12-18 months). There are a number of potential treatments and novel vaccines currently being investigated – although in our view, counting on these to turn the tide is probably wishful thinking. In all likelihood, what will determine the extent of the outbreak will be both the nature of this particular virus and the efforts of health care systems and governments to limit infection.

In the earliest days of COVID-19, there was a great deal of speculation around many aspects of the outbreak – Could it be contained? What is the fatality rate? How infectious is it? Market participants tried to apply precedent to both the nature of the outbreak and the economic impact. Many of these assumptions were wrong and provided an inappropriate level of confidence. The major issue with this kind of thinking is that little was (and still is) known about the nature of the virus and the path of transmission – these things tend to be definitively determined in a retrospective analysis, not on the fly.

Trying to understand the potential course of disease can be helpful. However, implying certainty is fraught with peril. In our view, the lack of market reaction in the early days of the COVID-19 outbreak was clearly due to a market underestimation of the likelihood of the disease getting out of China (we had always assumed it would spread). The extreme market reaction over the last several days is clearly a reaction to an understanding that this was incorrect. What remains to be seen is if the current market reaction fully captures the impact of the virus or not. Those who imply they know exactly where we go from here are probably wrong.



So, what can we say about an outbreak? Are there precedents that can be helpful? The range of outcomes are broad – SARS went from a first case in November 2002 to functionally being contained by July 2003 (eight months). The Asian flu and Hong Kong flu in the 1950s and 1960s each took over a year to run their course (these were not coronaviruses and pandemic vaccines were developed). The Spanish Flu (also not a coronavirus) in 1918 took about 18 months from the first case to the functional end of the outbreak (without a vaccine). There is a range to think about, but clearly there are not enough precedent cases to say with any level of certainty what the course of COVID-19 will be (especially as each virus has unique characteristics and health care systems have certainly evolved over the past 100 years). We can take some comfort from the fact (assuming numbers are accurate and reliable) that the first case in China was in December 2019 and the outbreak seems somewhat under control three months later (see below). As the first outbreak is likely the most difficult to contain (happening at a point where nothing is known about the disease), this could represent a reasonable assumption as the outside case for further outbreaks. That said, subsequent waves of outbreaks are possible, so this prediction too should be viewed with caution.



Source: National Health Commission of the People's Republic of China

How should we think about the COVID-19 outbreak? In our view, while it is difficult to say with any certainty how it will unfold in the short term, with the course of the outbreak likely primarily dictated by public health responses, the disease will ultimately run its course and panic is not helpful. We certainly expect that there will continue to be outbreaks, as some health systems will do a better job than others in containing transmission. With SARS, the difference in how a single patient was handled in Toronto compared to another in Vancouver likely dictated the relative impact of the disease in those cities. Importantly however, as additional data is obtained, the information and knowledge will get better and efforts to contain the disease will likely also improve.

The near-term economic impacts, policy responses and ultimate market reaction are obviously derivatives of the outbreak itself and are therefore equally uncertain. We advise taking a longer-term view, as outlined by Eric Bushell in a [companion commentary](#) on COVID-19.

Sources: Bloomberg Finance L.P. and Signature Global Asset Management as at February 29, 2020.

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