

Keep Market Fluctuations in Perspective

The S&P 500® dropped more than 3% on Monday and again on Tuesday, as the coronavirus continues to dominate headlines. As with most unforeseen or macro-level events, when it comes to the impact on financial markets, it is always important to **take a step back and look at the whole picture**. What other factors are driving the economic and market environments? No single factor or variable is usually responsible for driving markets in the longer run, so we have to consider the mosaic.

No matter how many advancements occur in the field of medicine, some common illnesses still cause widespread fatalities — and typically with minimal market impact.

At PNC, we believe it is imperative to put the coronavirus in perspective. According to the World Health Organization, the annual flu season kills approximately 250,000–500,000 people globally. Loss of life in any context is obviously tragic, but we are still far from the numbers affected by the annual flu season, despite what the coronavirus headlines might suggest. **Context is critical.**

Numerous studies have examined the impacts of prior health scares/epidemics on stock market returns. In most cases, the events created short-term volatility in the markets (just like today) but did not ultimately have lasting negative impacts:

- 1997: Avian bird flu during the dot-com equity market rally;
- 2003: SARS outbreak but the S&P 500 had a 29% total return that year;
- 2009: Swine flu, S&P 500 recovered from the Great Financial Crisis; and
- 2014: Ebola outbreak, S&P 500 up on a total return basis nearly 14%.

Bottomline, in each of these years, the S&P 500 had a positive return despite these epidemics. That being said, **in no way are we attempting to forecast/guarantee positive returns based on these episodes**. This simply reinforces our point that we should consider the other

variables and factors in play to understand the potential path forward for markets in 2020.

China 2020 Is Not China 2003

Headlines continue to suggest the coronavirus outbreak could be similar to SARS in terms of economic growth and GDP impact.

In 2003–04, the SARS impact was reportedly responsible for approximately a 2% hit to Chinese GDP, a sizeable proportion of overall growth. In our view, it is far too soon to compare the coronavirus with the SARS outbreak from 2003.

For starters, China has evolved both from an economic and consumer perspective, let alone the different Chinese government leadership under Chinese President Xi Jinping. From a consumer perspective, it is important to distinguish cities under quarantine and restricted travel from the impact (or lack thereof) on day-to-day consumer habits.

E-commerce has rapidly transformed spending habits in China. Today, approximately 80% of consumer transactions take place via smartphones. This suggests to us that the actual economic impact could be more limited because, in theory, consumers should be able to continue to spend under quarantine/travel restrictions or even while sick.

To learn more about PNC's views on the changing emerging market consumer, please see our Second-Quarter 2019 *Strategy Insights, Emerging from Hibernation: Green Shoots in Emerging Markets*.

We also believe the leadership in China might consider taking steps to potentially inject more policy-driven stimulus into the system if a material impact on economic growth in China were to materialize. We have already seen this as Chinese leaders have attempted to offset slowdowns from ongoing trade tensions with the United States. However, it is still very early to speculate on how much and/or what additional forms this stimulus might take.

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Remember, Pullbacks Happen

The point is, drawdowns in nonrecessionary periods typically do not last long. PNC's Economics team is not forecasting a recession, and we see pullbacks as part of normal market volatility.

For example, if you were invested in China's Shenzhen Composite when it fell 12% in four days, after markets reopened following the Lunar New Year, it recovered those losses and then some in only 10 days.

All of this was happening when the market was not even -1% off all-time highs. We encourage investors to consider where we are in the business cycle before worrying if a recovery is going to take years rather than days or weeks.

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For more information, please contact your PNC advisor.

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