

60% of Americans now say the economy is 'poor.' 67% called it good in January →



Market Extra

How the stock market has performed during past viral outbreaks, as coronavirus spreads to Italy and Iran

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By [Mark DeCambre](#)

There are now 79,407 cases of COVID-19 in 32 countries and 2,622 deaths



History says it tends to do a pretty good job [AFP/Getty Images](#)

DJIA **+0.85%** SPX **+0.99%** COMP **+0.50%** 892400 **-3.69%**

U.S. equity markets have experienced turbulent trade recently as investors keep watch of a deadly viral outbreak of COVID-19 in China. There are now 79,407 cases of COVID-19 in 32 countries and 2,622 deaths, [according to the most recent reports.](#)

However, gauged by the market's performance during the onset of other infectious diseases, including SARS or severe acute respiratory syndrome, Ebola and avian flu, Wall Street investors may have little to worry about. 60% of Americans now say the economy is 'poor.' 67% called it good in January → X
 years and finished Thursday trade at all-time highs.

That said, many investors are recommending caution amid the current bout of coronavirus that was reportedly first identified late last year in Wuhan City, China. The ability of the virus to halt travel and harm consumption, particularly in Beijing, are some of the ways an outbreak is likely to have economic implications that could wash up on U.S. shores.

“Risk velocity – the pace at which major risks and ‘black swan’ events can affect asset prices – is elevated in today’s markets compared to 10 years ago for three key reasons,” said Seema Shah, chief strategist at Principal Global Investors, in a research note, referring to the theory for the impact of unexpected events on markets and economies, popularized by Nassim Nicholas Taleb in his book [The Black Swan: The Impact of the Highly Improbable](#).

The strategist said a social-media driven news cycle, the interconnectedness of global supply chains and a pricey stock market, make Wall Street more vulnerable to a black swan.

“External shocks can derail economic trends and abruptly alter market sentiment. Not all risk is economic policy or monetary,” wrote David Kotok, chairman and CIO at money manager Cumberland Advisors, in a recent research note.

On Thursday, the Dow Jones Industrial Average **DJIA**, **+0.85%**, the S&P 500 index **SPX**, **+0.99%** and the Nasdaq Composite Index **COMP**, **+0.50%** all had been trading near records up until Monday.

However, investors have been attuned to updates on the spread of the disease.

Historically, however, Wall Street’s reaction to such epidemics and fast-moving diseases is often short-lived.

According to Dow Jones Market Data, the S&P 500 posted a gain of 14.59% after the first occurrence of SARS back in 2002-03, based on the end of month performance for the index in April, 2003. About 12 months after that point, the broad-market benchmark was up 20.76% (see attached table):

| EPIDEMIC | MONTH END | 6-MONTH % CHANGE OF S&P | 12-MONTH % CHAI |
|------------------|----------------|-------------------------|-----------------|
| HIV/AIDS | June 1981 | -0.3 | -16.5 |
| Pneumonic plague | September 1994 | 8.2 | 26.3 |
| SARS | April 2003 | 14.59 | 20.76 |

| | | | | |
|---|---------------|-------|-------|-----------------------------|
| Avian flu | June 2006 | 11.66 | 18.36 | |
| 60% of Americans now say the economy is 'poor.' 67% called it good in January → | | | | X |
| Swine flu | April 2009 | 10.72 | 55.70 | |
| Cholera | November 2010 | 13.95 | 5.63 | |
| MERS | May 2013 | 10.74 | 17.96 | |
| Ebola | March 2014 | 5.34 | 10.44 | |
| Measles/Rubeola | December 2014 | 0.20 | -0.73 | |
| Zika | January 2016 | 12.03 | 17.45 | |
| Measles/Rubeola | June 2019 | 9.82% | N/A | |
| | | | | —Source: Dow Market Data |

SARS resulted in a total of about 8,100 people being sickened during the 2003 outbreak, with 774 people dying, [according to data from WHO and the Centers for Disease Control and Prevention.](#)

Separately, the S&P 500 rose 11.66% in the roughly six months following reports of the 2006 Avian flu virus — a fast-moving pathogen also known as H5N1. The market gained 18.36% in the following 12-month period.

Data are similar for equity performance across the globe based on data from Charles Schwab, tracking the MSCI All Countries World Index **892400**, **-3.69%**. The index has gained an average 0.4% in the month after an epidemic, 3.1% in the ensuing six-month period and 8.5% a year later (see graphic below):

The severity of the virus, ultimately, will dictate the market's reaction and just because indexes had managed to shrug off the contagion from outbreaks in the past doesn't mean that will be the case this time.

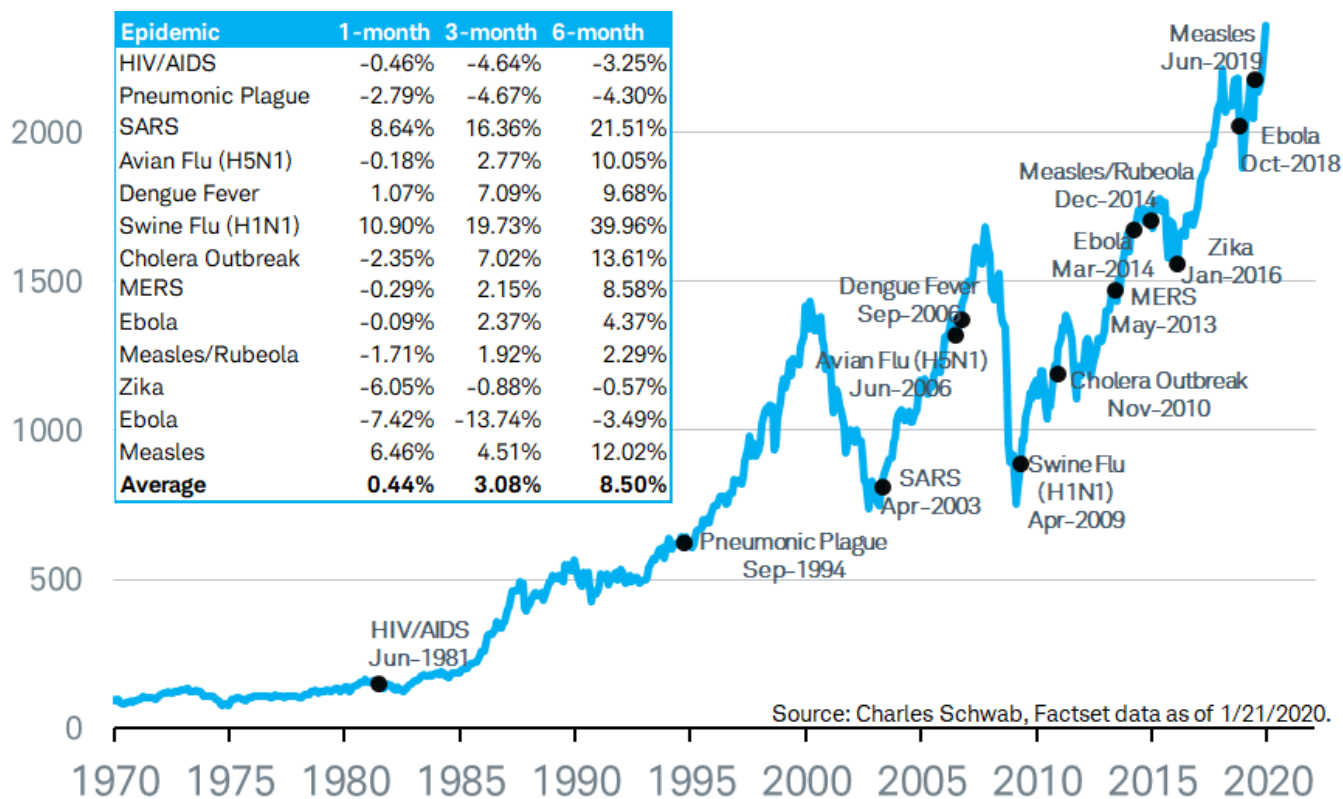
For one, coronavirus occurred during the important Lunar New Year, when Asia tends to see peak travel and consumer spending.

“There are concerns that the coronavirus may spread quickly within and beyond China, causing economic and market damage. This is particularly a concern as travel ahead of the Lunar New Year is getting underway,” wrote Jeffrey Kleintop, Charles Schwab's chief global investment strategist.

The [Wall Street Journal](#) reported that the incubation period for the virus is around 14 days, citing health

Immune: world epidemics and global stock market performance

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The MSCI World Index captures large and mid cap representation across 23 Developed Markets countries. With 1,646 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. **Past performance is no guarantee of future results.**

officials. People are most likely not contagious before symptoms develop.

A pandemic couldn't come at a worse time for China's sluggish economy, which slowed to 6.1% rate of annual growth last year, according to gross domestic product figures released last Friday, which reflected the lowest reading for Beijing in nearly three decades.

Read: [This how far and fast the coronavirus has spread through U.S. stocks](#)

Experts emphasize that it is important not to generalize the potential for unexpected results from epidemics on economies and markets.

Check out: [Investors brace for coronavirus shock as China factories poised to reopen Monday](#)

"We cannot draw any fixed conclusions about the effects of pandemics upon stock-market performance. Equity markets react unpredictably to the unknown; nevertheless, such events should not be examined in isolation, but viewed in common with other prevailing market conditions," according to [a 2006 report commissioned by Fidelity Investments](#) and cited by [Bloomberg News](#).

Indeed, potential disruptions to China's economy and factories could be significant because the

Asian coronavirus outbreak

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reports of the virus in nearly a dozen countries including the U.S.



Transmission

Coronaviruses are zoonotic, meaning they are transmitted between animals and people.

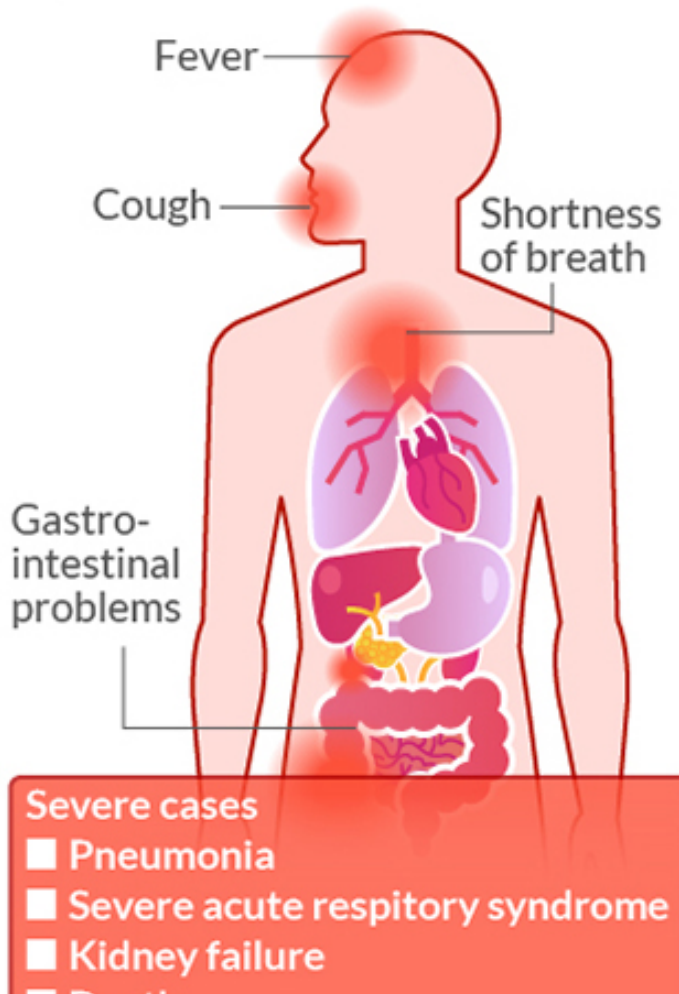


Human-to-human transmission:

Coronaviruses are most commonly spread from an infected person by:

- Coughing and sneezing.
- Close personal contact, such as touching or shaking hands.
- Touching an object or surface with the virus on it, and then touching your mouth, nose, or eyes before washing your hands.
- Fecal contamination.

Signs of coronavirus infection



Source: WHO, CDC, Getty Images

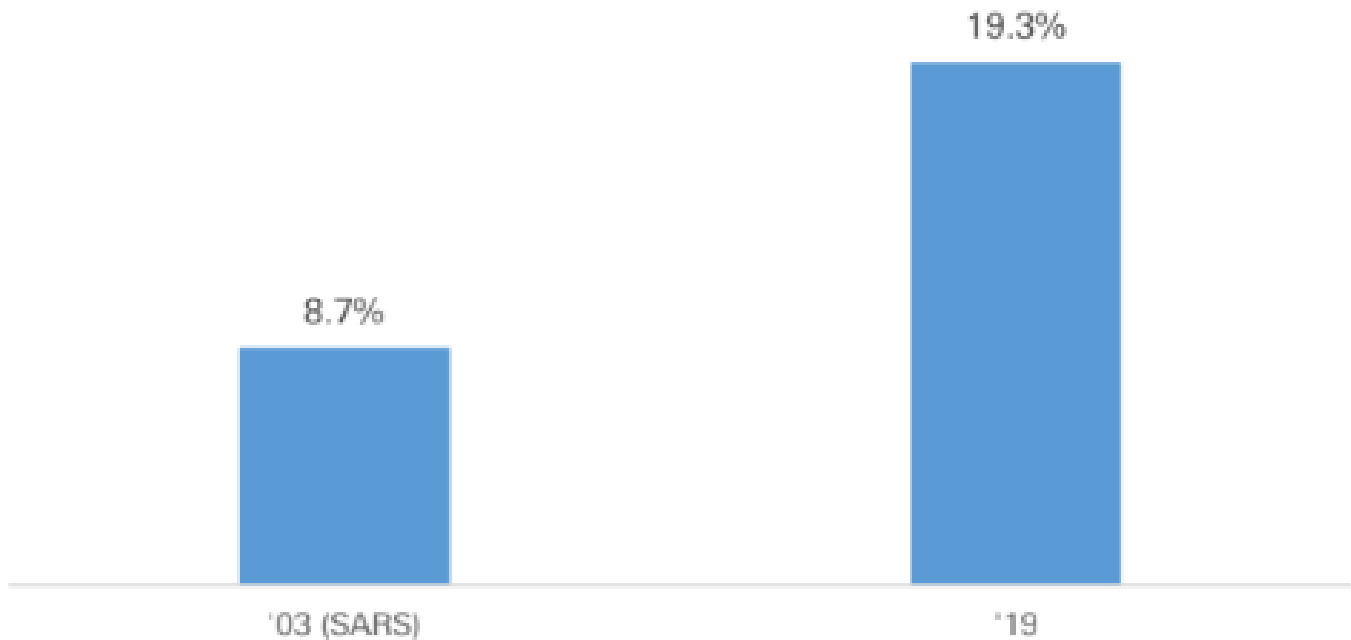
Death

country's share of the world economy by some measures has climbed to 19.3% in 2019, according to 60% of Americans now say the economy is 'poor.' 67% called it good in January → during the 2002-03 SARS outbreak, according to data from the International Monetary Fund.



Figure 7: China's rising share of world GDP

China % of world GDP (PPP-adjusted)



Source : IMF, Deutsche Bank

Check out: [What the 2003 SARS epidemic tells us about the potential impact of China's coronavirus on oil and metals](#)



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