Portfolio managers monitoring market impact of coronavirus

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There are rising health concerns as medical specialists respond to the global impact of the coronavirus, Covid-2019. People around the world continue to monitor the news for signs that the unfortunate outbreak will cease.

Investors are also anxious for updates about the economic impact of the outbreak. At Fidelity, our investment team is constantly scanning the global economy for potential financial or market risks due to the virus, especially in China. At the moment, the consensus from three portfolio managers is that there are likely to be short-term market implications – but in the long term, this may be remembered as a buying opportunity.

Patrice Quirion - Portfolio Manager

In simple terms, investors hate uncertainty, and the virus outbreak has brought a large dose of both human and economic fears. As a result, it is fair to expect the market reaction to exceed the current economic impact, as long as those fears don't alleviate and that the ultimate reach of the virus isn't known. But that also means that once uncertainty dwindles and that the speed of contagion reduces, the emotional overreaction will likely reverse. It is very likely to be remembered as a long-term buying opportunity.

There will be some short-term economic implications, probably more than in prior outbreaks such as SARS or MERS (Middle East Respiratory Syndrome). That is because fear is causing changes in consumer behaviour (mostly contained to China, for the time being), and because containment measures by the Chinese government are leading to work interruptions, with a resulting impact on production output. Depending on how long this lasts for, it could delay the global economic manufacturing recovery that was becoming expected.

At this stage, a delay along the path to economic recovery seems more likely than a reversal of direction. That is because the postponement of some Chinese consumption and production could well lead to some pent-up demand once the situation stabilizes and fear recedes. It is also because we can probably expect further monetary and fiscal stimulus if the former recovery doesn't materialize.

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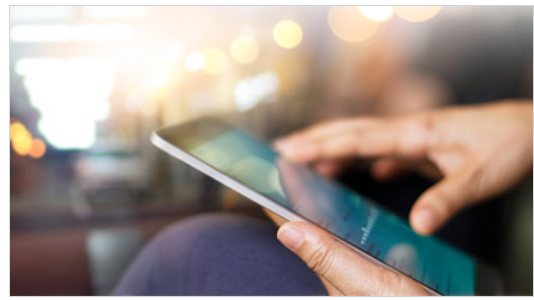

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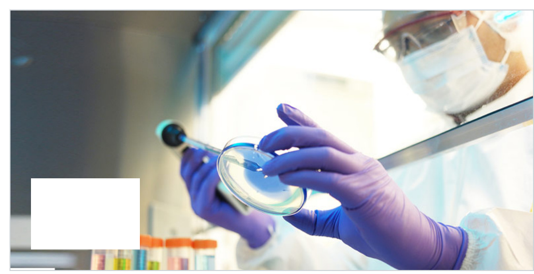

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Therefore, advocating for patience and staying the course seems like the right thing to do. It is likely that this coronavirus outbreak will not change the prices at which securities will be trading in two or three years from now, when it becomes either forgotten or simply part of history.

Jing Ning - Portfolio Manager, based in Hong Kong

The coronavirus outbreak was an unforeseen event, and China has responded with several substantial measures to curtail the contagion. We are likely to see disappointing first-quarter domestic economic data in this environment. Consumption in particular will suffer the worst impact: we have already witnessed a notable slowdown in online consumption, with a combination of Chinese holidays and general fears of contagion slowing down the delivery network to a near standstill.

What we are also seeing, however, is a focused attempt from online gaming, streaming and education providers to attract consumer attention to the services they can continue to offer in the safety of the consumer's home.

Against this backdrop, overall corporate activity may experience weakness too. The pace of infrastructure activity will depend on how projects pick up in late February.

Dr. Judith Finegold - Co-Portfolio Manager

There is a lot of uncertainty about this virus. SARS died down when the weather warmed, but it's hard to know if that will be the case with the coronavirus, Covid-2019. At the moment, we have managed to characterize the virus, and the genome is being explored. There is a lot of speculation that this virus will just be a first-quarter problem, but until it has been properly studied, it is hard to speculate. With regard to a vaccine, precedents suggest that it will be six to twelve months before we can hope to have one. In reality, the better chance might be to hope for warmer weather. There are investors that are jumping on stocks that are linked to vaccines. Potentially, this may be rather short-sighted of the market instead of looking at it from a long-term perspective.

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