

Tracking the Coronavirus: How Have Equity Markets Fared in Different Regions?

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- Global equity markets tumbled into correction territory in late February as cases of the coronavirus continued to spread and investors fretted about the potential fallout.
- Outside of China, the rest of the world only began to confront a serious outbreak starting in mid-February, which was reflected in regional market prices.
- A look back at the performance of financial markets over the past five years highlights that sharp spikes in volatility often coincide with inflection points.

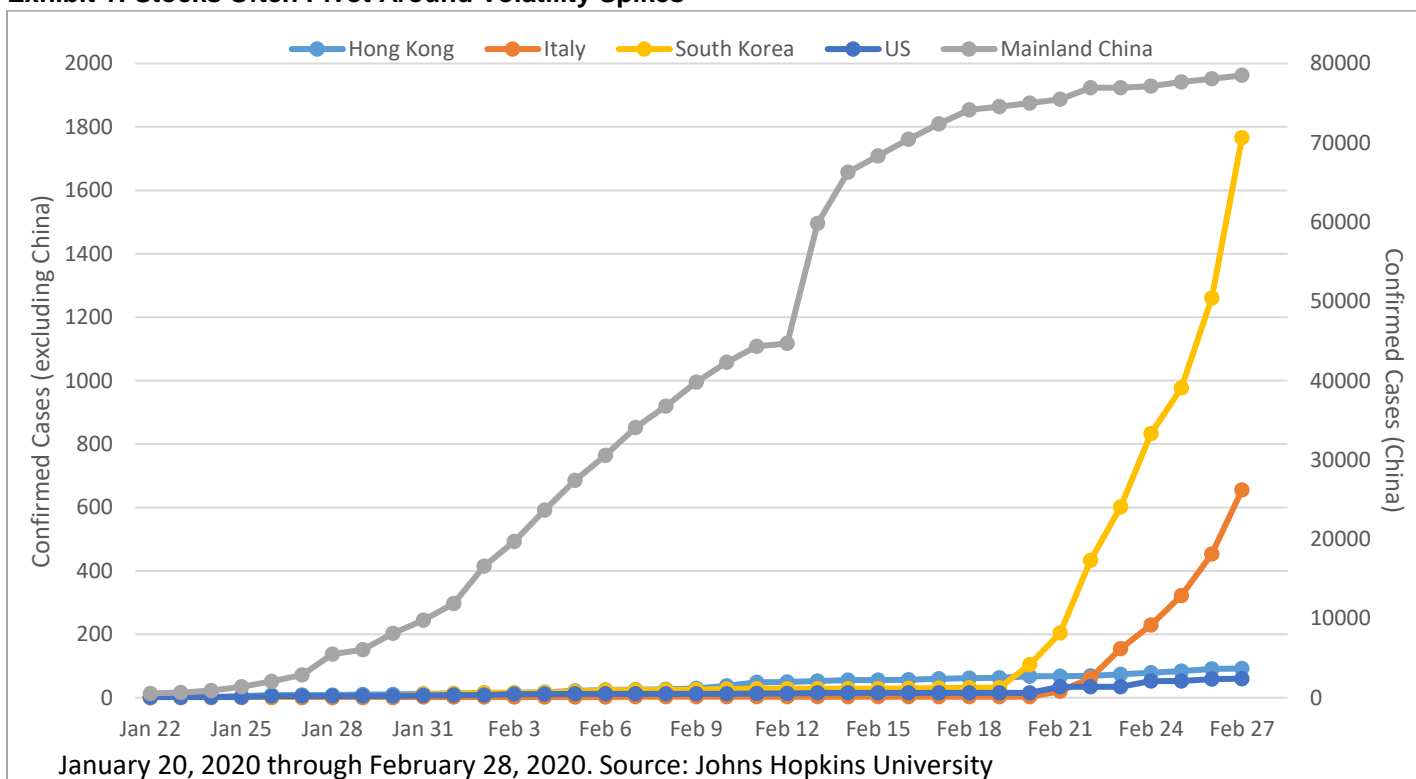
Global equity markets tumbled into correction territory in late February as cases of the coronavirus (COVID-19) continued to spread and investors fretted about the potential fallout. While the negative market reaction has already surpassed other influenza outbreaks, a look at how markets have reacted in different geographical regions may provide helpful perspective.

Spreading Beyond China

The earliest cases of COVID-19 were diagnosed in mainland China during mid-to-late January. Almost 95% of confirmed cases were still confined there as of February 28¹.

Outside of China, the rest of the world only began to confront a serious outbreak starting in mid-February. By that point, the reported spread of COVID-19 cases within China had begun to level off.

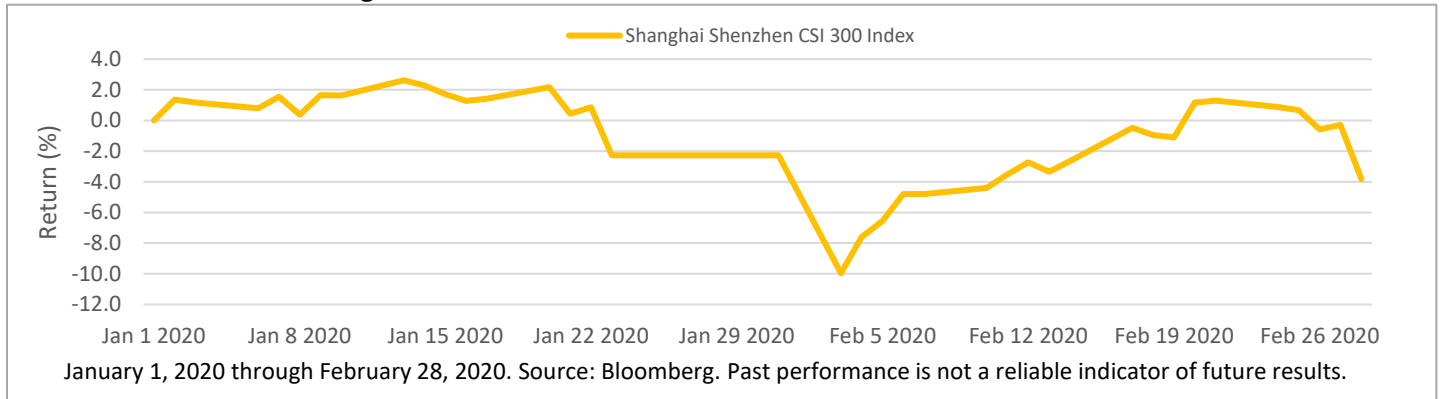
Exhibit 1: Stocks Often Pivot Around Volatility Spikes



¹ "Coronavirus COVID-19 Global Cases by Johns Hopkins CSSE" Johns Hopkins University

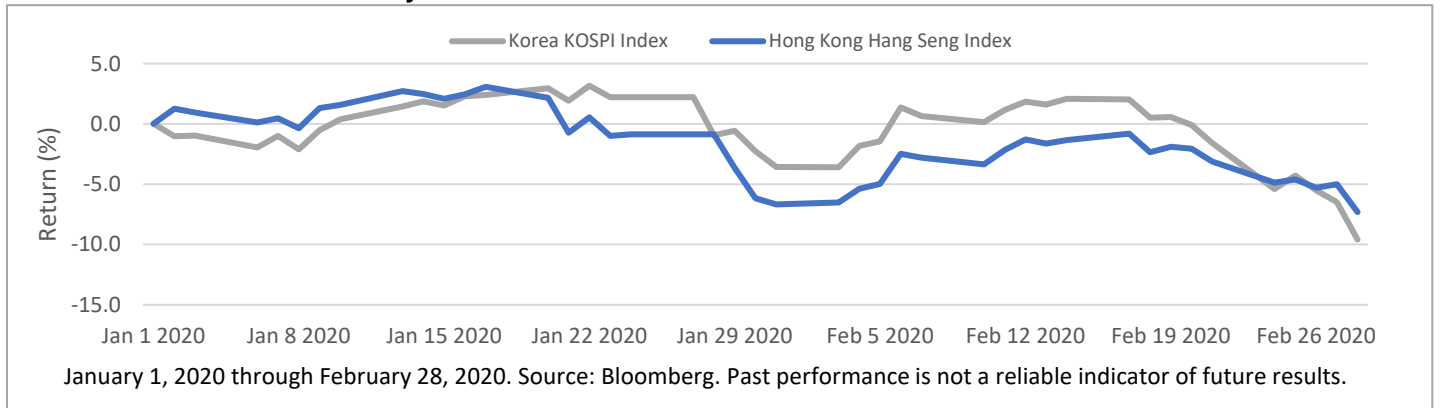
Mainland Chinese equity markets declined sharply through the beginning of February before rebounding for most of the month. While the initial selloff reached correction territory, the recovery pushed Chinese stocks slightly positive again before an end-of-February dip returned them to a loss.

Exhibit 2: There and Back Again



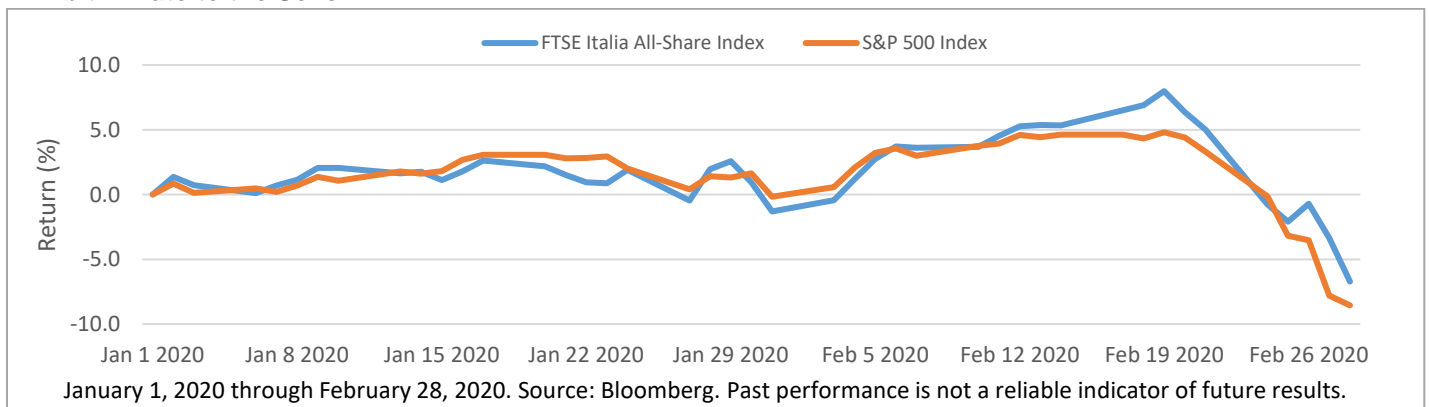
Hong Kong and South Korean equities moved in sympathy with China at the start of the outbreak—albeit with more limited selloffs—and recovered in similar fashion. However, they suffered secondary declines in late February as the number of COVID-19 cases spiked in South Korea.

Exhibit 3: A Premature Recovery



Europe and the U.S. remained resilient while the outbreak appeared mostly limited to Asia. But a group of new diagnoses in Northern Italy that resembled the trajectory of the South Korean outbreak shook confidence in the ability of the western world to contain the virus. Multiple individual cases in North America also created concern about their origins and the effectiveness of tracking and diagnosis efforts. As a result, U.S. and European equities succumbed to the outbreak-induced panic and sold off to finish February.

Exhibit 4: Late to the Selloff

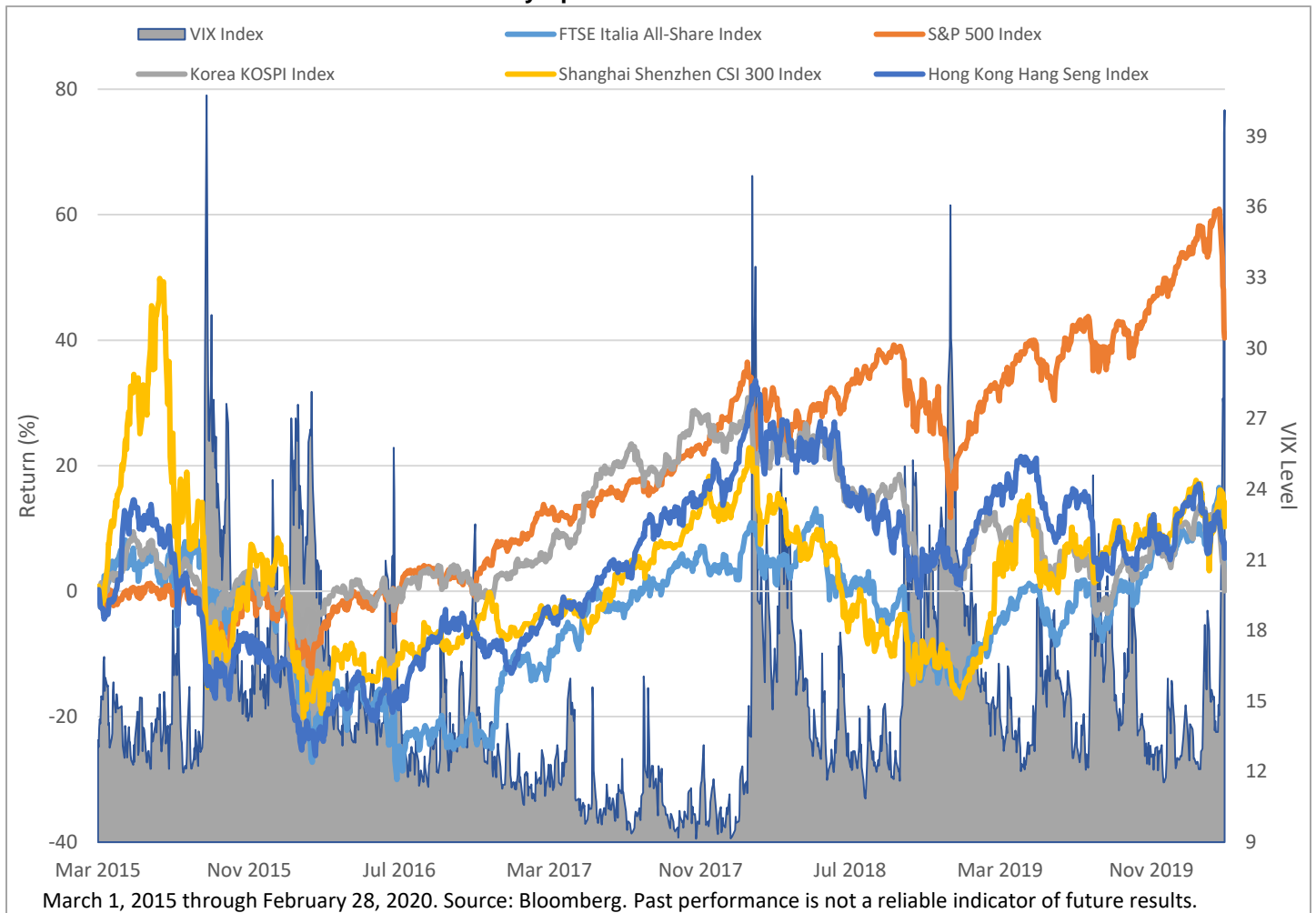


A Five-Year Lookback: Volatility Spikes During Sharp Selloffs and Inflection Points

We believe it is too soon to draw any precise conclusions about the impact this outbreak will have on financial markets. Although few investors enjoy uncertainty or the prospect of volatility, a look back at the performance of financial markets over the past five years highlights that sharp spikes in volatility often coincide with inflection points. The bottoms in early 2016 and late 2018 arrived amid the type of heightened volatility we experienced as February 2020 came to a close.

The U.S. market, in particular, has outpaced other markets by such a notable amount in recent years that it should come as no surprise if the U.S. converges with the rest of the world as U.S. economic and profits growth decline (with or without COVID-19-induced fallout). Given the disparity in stock-market valuations as this year got underway, we maintain our view that international equities will likely outperform U.S. stocks in 2020.

Exhibit 5: Stocks Often Pivot Around Volatility Spikes



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