CIBC
Asset Management

CORONAVIRUS SPREADS – WILL GLOBAL MARKET CONTAGION CONTINUE?

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The World Health Organization has warned that the Coronavirus (COVID-19) has pandemic potential, although it is not at that point yet. New hotspots have emerged in Italy, South Korea, and Iran, even as the number of new cases has slowed in China.

Global stock markets and bond yields took a dive at the start of this week on increased concerns that the global economy is slowing due to the spread of COVID-19. The Dow Jones Industrial Average Index lost nearly 1,900 points over the first two trading days, while U.S. 10-year Treasury yields reached record lows.

A fluid situation – what we are watching

- The economic impact from COVID-19 is likely to be more prolonged than originally expected. This week's price action, including pricing more central bank policy easing, widening of credit spreads, lower equity prices, and a further rise in the price of gold, reflects this expectation.
- We now expect the negative impact on 2020 Chinese GDP growth to be at least 1% of GDP. It will force Chinese policy makers to deliver fiscal stimulus. Latest cross-border trade data reported by other countries in Asia, including Japan, Korea, and Taiwan, report a substantial weakening in activity with China.
- Chinese economic weakness will result in important spillovers to the global economy. Global spillovers will be uneven, with some economies (particularly in Asia) likely to be hurt considerably more than others.

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Impact on portfolio management?

We continue to closely monitor the dynamics surrounding COVID-19 and its shifting implications for the global economy and portfolios.

- **Multi-Asset & Currency:** From a portfolio perspective, the risk of further, large adverse market moves has likely increased, while expectations of a V-shaped recovery have diminished. Portfolio risk has been reduced as a result of this week's events. The defensive long gold position in multi-asset strategies has been increased moderately.
- **Equities:** If we experience continued geographical expansion of COVID-19 cases, equity markets will surely see increased volatility as confidence in global economic growth will deteriorate further. Under this scenario, we will look for opportunities to further increase the near-term defensiveness of portfolios.
- **Fixed Income:** The flight to safety continues to drive both U.S. and Canadian bond yields lower. Canadian 10-year yields are at their lowest level since September 2019 and U.S. 10-year yields reached record lows. High yield spreads have widened as investors demand higher compensation for credit exposure. Within our portfolios we continue to monitor holdings with supply chain exposure to China. We expect short-term volatility to persist and remain comfortable with our current portfolio positioning.

The bottom line

Ultimately, market volatility provides opportunities to deploy capital at attractive valuations. As long-term investors, CIBC Asset Management will seek to take advantage of this volatility by buying well-managed businesses at attractive valuations.

While a broader, more aggressive spreading of COVID-19 will likely bring further near-term challenges to equity markets and the global economic outlook, a substantive global stimulus effort is likely. Eventually, remaining vigilant and actively deploying capital as the scenarios unfold will benefit clients in the long term.