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Flu Outbreak in China and possible impact on equity markets

Equity markets around the globe have experienced negative trends in the past week as investors were worried of a deadly flu outbreak in China. The ability of the virus to disrupt travel and consumption, particularly in China could have economic implications in global trade and commerce. This disruption comes at a time when Chinese economic growth already looks fragile. There is a belief that fallout from the disease may dampen economic activity and marginally depress investment in China and Hong Kong.

China accounts for twice as great a share of the global economy as it did in 2003, "meaning there is greater scope for events there to set the tone in global markets", Oliver Jones, senior markets economist with Capital Economics in London.

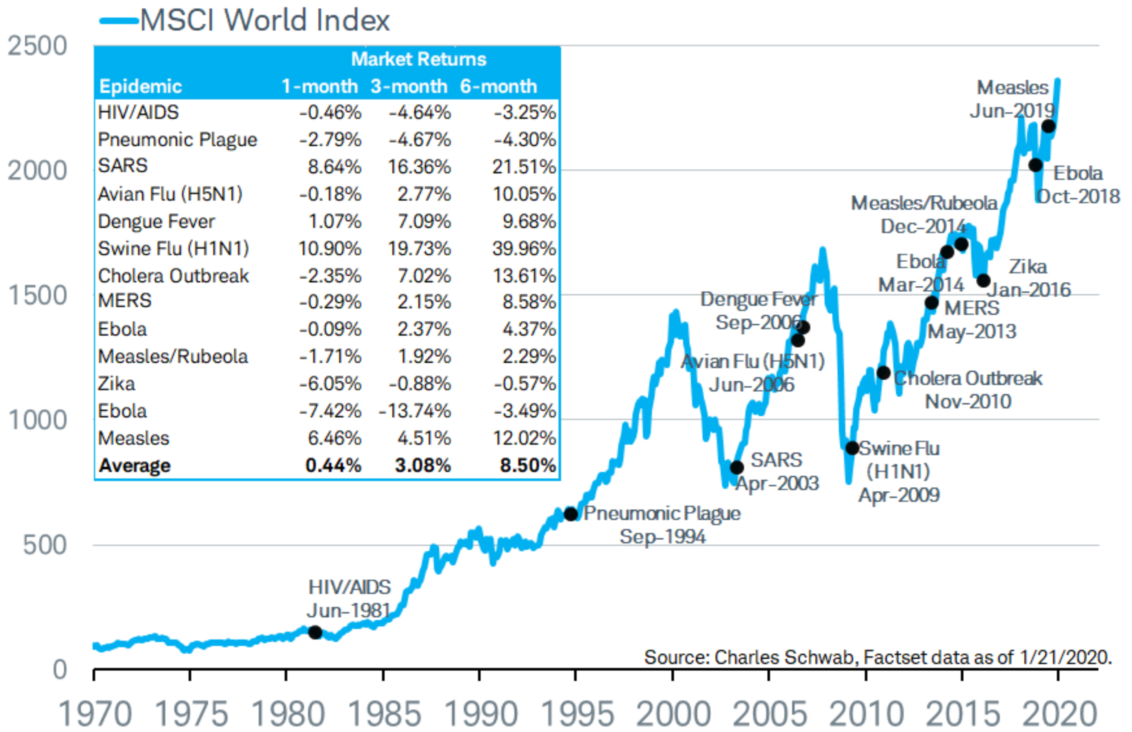
To top it up, earlier this month, the International Monetary Fund trimmed its 2020 growth forecast to 2.9 percent from 3 percent, citing weakness in key emerging markets such as India.

Historic references

There have been instances in the past where deadly virus outbreaks caused similar global outburst. The immediate knee jerk reaction was to curtail mass travel and restrict trade in affected areas. But as the virus outbreak is brought under control, things resume to normalcy soon after.

History suggests that after a jolt reaction, global equity markets rebound swiftly indicating that in most such cases, any financial damage is short-lived.

Immune: world epidemics and global stock market performance



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.**

Epidemic	Month end	6-month % change - S&P	12-month % change - S&P
HIV/AIDS	Jun-81	0%	-11%
Pneumonic plague	Sep-94	8%	26%
SARS	Apr-03	15%	21%
Avian flu	Jun-06	12%	18%
Dengue Fever	Sep-06	6%	14%
Swine flu	Apr-09	19%	36%
Ebola	Mar-14	5%	10%
Zika	Jan-16	12%	17%

Source: www.marketwatch.com

Impact on Indian Markets

It is unfair to compare performance of Indian markets to global markets as Indian equity and debt markets weren't exposed to foreign flows during early 2000s as much as they are today. During SARS outbreak in 2003, Indian markets (NIFTY 50) had a low base and was at the cusp of a massive Equity rally which lasted till early 2008. The Swine Flu virus in 2009 could not dampen Indian spirits as the Global and Indian markets were already reeling under pressure from the global meltdown of 2008 and had started their recovery process. Ebola virus (2014) and Zika virus (2016) too had limited impact on Indian markets.

Epidemic	Month end	6-month change - Nifty 50	12-month % change - Nifty 50
SARS	Apr-03	33%	79%
Avian flu	Jun-06	20%	40%
Dengue Fever	Sep-06	12%	31%
Swine flu	Apr-09	56%	74%
Ebola	Mar-14	28%	42%
Zika	Jan-16	4%	3%

Source: Internal research. www.nseindia.com

Our Take:

This is not to say that Indian Equity markets will give 5%,10%,15% returns over next 1 year. The objective of this note is to showcase that eventually, events like these do not deter markets for too long. **On the contrary, they might present us with an investment opportunity**. We will be barraged with negative news and indices could react negatively in the short term. Eventually, markets will take everything in its stride and move on.

Over 2 decades of investing our own money and advising clients, we have realised, money is best made when:

1. **Goal Setting: Before you invest your hard-earned money, always have a goal in mind. Investments made without a goal are generally redeemed prematurely to meet short term requirements.**

2. **Asset Allocation: Don't put all eggs in one basket. Owning too much of risky assets like Equity or safe assets like Fixed Deposits do not make a good investment basket.**

3. **Time in the market is more relevant than Timing the Market. If you have enough time left to fund your child's education or say to retire from your active work life, do not bother to react to every time to negative news flow. Stay patient as this time too shall pass…**