



**Yung-Yu Ma, Ph.D.**, Chief Investment Strategist, BMO Wealth Management - U.S.

**Michael P. Stritch, CFA**, Chief Investment Officer, BMO Wealth Management - U.S.

Monday, February 3, 2020

*"In God we trust. All others must provide data."*

Dr. William Schaffner, Vanderbilt University Medical Center,  
as quoted in the New York Times on 02/02/2020

Developments of the past two weeks regarding the new strain of coronavirus – labeled "2019-nCoV" – have progressed at a rapid pace. What began as an outbreak in Wuhan, China (population 11 million) has spread throughout the country and also to 23 other countries.<sup>1</sup> On January 19, there were 282 confirmed cases (of which 278 were in China) and 3 deaths. A mere week later, confirmed cases shot up to 2,800 and deaths totaled 80, and two weeks later (Feb. 2), confirmed cases stood at 17,388 and deaths at 362.<sup>2</sup> After initially demurring, the World Health Organization (WHO) officially deemed the outbreak a "Public Health Emergency of International Concern" (PHEIC) on January 30. Before we peel the multiple layers of uncertainty posed by the current outbreak, we express our deep sympathy to all of those affected.

The dramatic numbers referenced above have been met with dramatic action on the part of governments around the world. China has put Wuhan and surrounding cities under quarantine order (starting January 23), closed schools, and limited public activities across the country. The U.S. and several other countries have enacted tight restrictions on travelers coming from China, and hundreds of health care workers have gone on strike in Hong Kong demanding full border closure with Mainland China. Fear is in the air, and is abetted by the ongoing uncertainty surrounding the outbreak.

The current list of unknowns includes the severity of the outbreak in China, the ease of contagion, the incubation period,

the mortality rate, and whether asymptomatic carriers can infect others. It's a daunting list of question marks. While the numbers above represent officially confirmed cases, there are reports of widespread test kit shortages in China preventing case confirmation,<sup>3</sup> and statistical modeling has pointed to the possibility of confirmed cases grossly underestimating the actual number of cases.<sup>4</sup> China's National Health Commission (NHC) reports an additional 21,558 "suspected" cases.<sup>5</sup>

The WHO estimates the "reproductive number" for the virus (i.e., the number of new cases that each case generates in a susceptible population) to be between 1.4 and 2.5. Other estimates are on the high end of that range or above it,<sup>6</sup> and even small variations would have a considerable effect on the number of cases that actually exists. For comparison, the seasonal flu has a reproductive number around 1.3.<sup>7</sup> The incubation period of the coronavirus is similarly difficult to pin down, with the WHO indicating 2 to 11 days,<sup>8</sup> the U.S. Centers for Disease Control and Prevention indicating 2 to 14 days,<sup>9</sup> and China's NHC indicating generally 3 to 7 days.<sup>10</sup> The mortality rate is believed to be around 2%, which is considerably higher than the season flu at 0.13%,<sup>11</sup> but considerably lower than that of SARS at over 9%.

<sup>3</sup><https://www.businessinsider.com/wuhan-coronavirus-china-shortage-test-kits-lottery-2020-1>

<sup>4</sup>The Lancet, January 31, 2020, "Nowcasting and forecasting the potential domestic and international spread of the 2019-nCoV outbreak originating in Wuhan, China: a modelling study," J. Wu, K. Leung, and G. Leung.

<sup>5</sup><https://www.bbc.com/news/world-asia-51349154>

<sup>6</sup>[www.wsj.com/articles/experts-race-to-figure-out-how-contagious-the-wuhan-virus-is-11580672317](http://www.wsj.com/articles/experts-race-to-figure-out-how-contagious-the-wuhan-virus-is-11580672317)

<sup>7</sup><https://www.ncbi.nlm.nih.gov/pubmed/25186370>

<sup>8</sup><https://www.who.int/news-room/q-a-detail/q-a-coronaviruses>

<sup>9</sup><https://www.cdc.gov/coronavirus/2019-ncov/about/symptoms.html>

<sup>10</sup>[www.wsj.com/articles/experts-race-to-figure-out-how-contagious-the-wuhan-virus-is-11580672317](http://www.wsj.com/articles/experts-race-to-figure-out-how-contagious-the-wuhan-virus-is-11580672317)

<sup>11</sup>Per CDC data since 2011

<sup>1</sup>[https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200202-sitrep-13-ncov-v3.pdf?sfvrsn=195f4010\\_2](https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200202-sitrep-13-ncov-v3.pdf?sfvrsn=195f4010_2)

<sup>2</sup>Sources: World Health Organization, China's National Health Commission, and South China Morning Post

For more insights and information, follow - [BMO Wealth Management - U.S. on LinkedIn](#).



Given the incubation period, the “true” data would only recently begin to show the positive impact of the quarantine and other countermeasures in China. The *reported* data of confirmed cases, however, can still be heavily influenced by factors such as the alleviation of test kit shortages, so the virus’ *effective* reproduction amid widespread preventative measures remains difficult to determine at present. On an encouraging note, international cases outside of China have not exploded and early vigilance appears to be limiting transmission. In China, provinces other than the main outbreak area constitute about one-third of the total confirmed cases. In those areas, recent days have seen a small slowdown in the rate of increase in confirmed cases – still too early to call it a trend, but better than having data point in the wrong direction.

Financial markets will be looking for any indication that the peak of the outbreak is on the horizon. The risk of a global growth slowdown has increased and the situation is very fluid with a lot of unknowns. Emerging market economies (including China) are on the front lines of the threat, and the Shanghai Composite Index is currently down over 7% on the day after having been closed since January 24 for the Lunar New Year holiday. U.S. and other international equity markets have also weakened over the past two weeks, and some retracement of the strong gains seen since the fall of 2019 is to be expected when a new and unforeseen risk emerges so abruptly.

So where do we go from here? Business activity is clearly slowing in China as a result of the outbreak and unprecedented measures to combat the virus. Many Chinese companies have scaled back operations, as have major U.S. companies doing business in China such as Starbucks, McDonalds, GM, and Apple. Compounding the unknowns surrounding the outbreak’s trajectory is how quickly the Chinese economy can bounce back once this shock recedes. At that time, China will likely implement stimulus measures to kick-start economic momentum (including a 20B+ liquidity injection announced over the weekend). Where the line crosses from significant but temporary disruption to more long-lasting damage is not perfectly clear and is partially dependent on the ultimate duration of the outbreak.

As of now, economists are sharply cutting China growth forecasts for Q1, but generally expecting a rebound in Q2. These developments would be a headwind for global prospects, but not completely destabilizing. If past history is a guide, the crisis will only subside when the true number of new cases trends down and the spread of the virus across China shows signs of decelerating. Until then, volatility will likely persist. Despite this expected near term choppiness, we remain comfortable with our current pro-risk positioning that is tilted toward U.S. equities. Of course we will be monitoring the situation closely, and will adjust accordingly should the facts change.

For more insights and information, follow - [BMO Wealth Management - U.S. on LinkedIn](#).



## Disclosure

CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

This report contains our opinion as of the date of the report. It is for general information purposes only and is not intended to predict or guarantee the future performance of any investment, investment manager, market sector, or the markets generally. We will not update this report or advise you if there is any change in this report or our opinion. The information, ratings, and opinions in this report are based on numerous sources believed to be reliable, such as investment managers, custodians, mutual fund companies, and third-party data and service providers. We do not represent or warrant that the report is accurate or complete.

To the extent this report contains information about specific companies or securities, including whether they are profitable or not, it is being provided as a means of illustrating the investment manager's investment thesis. The investment manager may or may not have invested in these securities at the time this report was prepared or is accessed by the reader. References to specific companies or securities are not a complete list of securities selected and not all securities selected in the referenced timeframe were profitable.

Other Bank of Montreal affiliates, and their agents and employees, may provide oral or written market commentary or trading strategies to clients that reflect opinions that are contrary to the opinions expressed in this report. These same persons and affiliates may make investment decisions that are inconsistent with the recommendations or views expressed in this report. We and our affiliates, directors, officers, employees and members of their households, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities referred to in this report. We and our affiliates, directors, officers, employees and members of their households, may have positions in the securities mentioned that are inconsistent with the views expressed by this report.

This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, a recommendation to buy, hold or sell securities, or a recommendation of any investment manager or investment strategy. Do not use this report as the sole basis for your investment decisions. Do not select an asset class, investment product, or investment manager based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Any forward-looking statements in this report involve known and unknown risks, uncertainties and other factors that may cause the actual performance of future markets to differ materially from the projections depicted in the report. Past performance is not indicative of future results and current performance may be higher or lower than that shown in the report. There can be no certainty as to the extent or depth of any market downturn, nor any assurance regarding the nature, extent or timing of markets rebounding. When evaluating the report, you are cautioned not to place undue reliance on these forward-looking statements, which reflect judgments only as of the date of the report. Investment returns fluctuate, and investments when redeemed, may be worth more or less than the original investment.

Standardized performance returns include reinvestment of dividends, other income and capital gains, which depict performance without adjusting for the effects of taxation or the timing of purchases and sales. Performance data is presented without deducting the investment advisory fees and other charges that may be applicable. The deduction of such fees and other charges (and the compounding effect thereof over time) will reduce portfolio return. Unless otherwise indicated, traditional investment performance data generally represents a composite or representative portfolio return and is shown gross of the investment manager's advisory fees. Unless otherwise indicated, alternative investment performance data is shown as net of fund expenses, management fees, and incentive fees. Index performance data is shown as total return. You cannot invest directly in an index. Due to a system conversion, the ability to manipulate or restate client specific performance data prior to December 31, 2007, may be limited.

Any discussions of specific securities, investment managers, or strategies are for informational purposes only and should not be considered investment advice. The report does not constitute an offer to sell or a solicitation to buy any security or investment product. Any offer to sell or solicitation to buy an interest in any private security, investment product or fund may only be made by receiving a confidential private offering memorandum, prospectus, investment advisory agreement or similar documents from the investment manager, which describes the material terms and various considerations and risks relating to such security, investment product or fund.

Alternative investments, such as private equity and hedge funds, contain risks that are amplified when compared with other asset classes, such as illiquidity, stock or sector concentration, financial leverage, difficulties in valuation, and short selling. Alternative investment vehicles have minimal regulatory oversight and alternative managers have the latitude to employ numerous investment strategies with varying degrees of risk.

We are not licensed or registered with any financial services regulatory authority outside of the United States. Non-U.S. residents who maintain U.S.-based financial services accounts with us may not be afforded certain protections conferred by legislation and regulations in their country of residence with respect to any investments, investment solicitations, investment transactions or communications made with us.

You may not copy this report or distribute or disclose the information contained in the report to any third party, except with our express written consent or as required by law or any regulatory authority.

"BMO Wealth Management" is a brand name that refers to BMO Harris Bank, N.A., BMO Family Office, LLC, BMO Harris Financial Advisers, Inc., BMO Delaware Trust Company, and certain affiliates that provide certain investment, investment advisory, trust, banking, securities, insurance and brokerage products and services. "BMO Family Office" is a brand name that refers to BMO Harris Bank, N.A., BMO Family Office, LLC, and BMO Delaware Trust Company. The BMO Family Office brand provides family office, investment advisory, investment management, trust, banking, deposit and loan products and services. These entities are all affiliates and owned by BMO Financial Corp., a wholly-owned subsidiary of the Bank of Montreal. Capital Advisory Services are offered by a division of BMO Harris Bank, N.A. Member FDIC.

NMLS #401052



Broker-dealer and investment advisory services and insurance products are offered through BMO Harris Financial Advisers, Inc. Member FINRA/SIPC. SEC-registered investment adviser.

Securities, investment advisory services and insurance products are offered through BMO Harris Financial Advisers, Inc. Member FINRA/SIPC. SEC-registered investment adviser.

Not all products and services are available in every state or location or through all entities within BMO or BMO Family Office. Securities, investment, and insurance products offered are: **NOT A DEPOSIT – NOT INSURED BY THE FDIC OR ANY FEDERAL GOVERNMENT AGENCY – NOT GUARANTEED BY ANY BANK – MAY LOSE VALUE.**