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Capital market insights

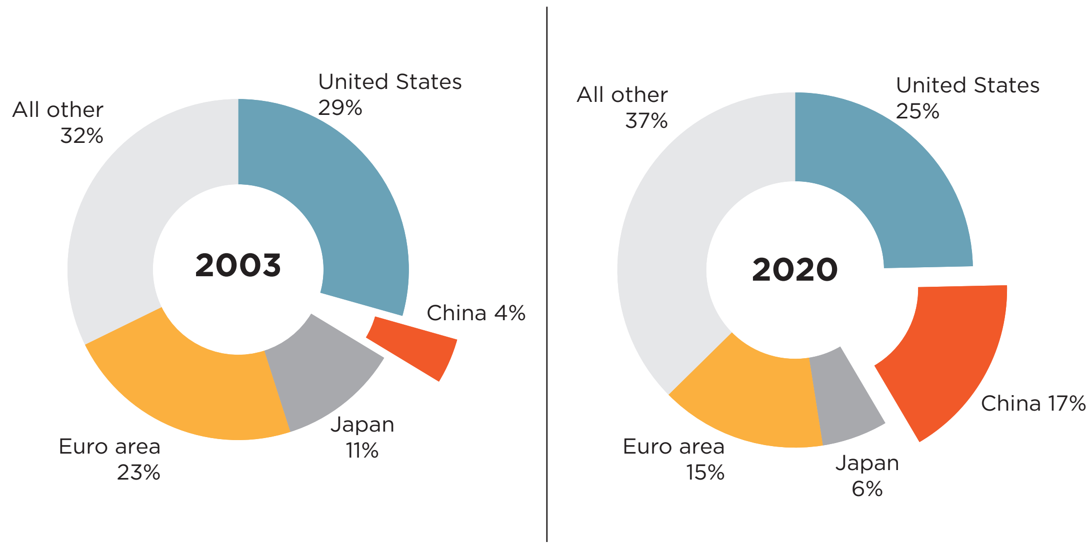
Conversation guide

February 24, 2020

# Markets react to viral uncertainty.

Investors weigh the risks of the coronavirus outbreak in China and beyond.

**Contribution to the global economy**
% by country or region, 2003 and 2020




Source for chart data: International Monetary Fund

Countries around the world are assessing the human impact of the current coronavirus outbreak, which emerged from China in December 2019 and has so far spread to 28 countries (as of February 24, 2020). The vast majority of infected cases and deaths have occurred in mainland China, but other nations are responding to the potential for a wider outbreak with travel restrictions and quarantines of highly impacted areas.

Any major news event involving China will likely cause ripple effects around the world, due to the significant role of the country in the broad global economy. From an economic perspective, the uncertain nature of the virus makes it difficult to gauge the impact on economic activity, although the International Monetary Fund noted a further spread of coronavirus could derail a "highly fragile" projected global economic recovery in 2020.

This isn't the first virus to spread from China to the rest of the world; in 2002, the SARS outbreak reached 17 different countries, although fewer people overall were infected and died from that virus than the current coronavirus outbreak. However, China is a different country now than it was in the early years of the 2000s—the Chinese economy is larger today and more integrated in global supply chains. In 2003, China accounted for just 4% of the global economy. This year, China will account for roughly 17% of global GDP, a four-fold increase from 2003. (See the above chart.) Oxford Economics predicts the impact of coronavirus within China alone will shave 0.5% from global growth.

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Markets so far have had a bifurcated reponse to the virus outbreak. U.S. Treasuries have rallied thanks to “safe haven” flows, with the yield on 30-year bonds falling to an all-time low of 1.82% on February 24. The U.S. dollar index touched a near three-year high recently, while crude oil prices have dropped 15% since January.

Equity markets, on the other hand, have been mostly sanguine about the situation through last week, but that outlook may now be changing. Earlier in the month, investors saw little risk of the outbreak leading to wider disruptions in the global economy. This optimism kept the S&P 500® within striking distance of its record high. But in recent trading sessions, mounting concerns about the spread of the virus have sparked equity market sell-offs.

The divergence among financial markets highlights the different mindset of equity investors and shows the difficulty both investors and economists have in assessing the potential impact and lasting effects of this outbreak.

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MFM-3556AO (2/2020)