

## CORONAVIRUS (COVID-19) UPDATE

Given the sharp declines in U.S. equity markets in recent days, we would like to highlight our thinking around risk and what it means for your portfolio. Pandemics are scary. Media coverage can often stoke this fear. We will do our best to separate fact from opinion.

### TAKE STOCK

Provided by  
Bridges Investment Management

## STATUS OF COVID-19

**The number of cases is currently small.** As of February 25<sup>th</sup>, the World Health Organization has confirmed 80,239 global cases, 97% of which are in China. As of February 24<sup>th</sup>, the Centers for Disease Control had confirmed 14 US cases, 12 of which came from those traveling abroad.

**The disease is not particularly lethal.** There have been 2,700 reported deaths, for a 3.4% mortality rate, while this is higher than the Flu, it compares favorably to Ebola, which had a mortality rate of 50%.

**The market is concerned about contagion.** The number of cases outside China (South Korea, Iran, Italy, Hong Kong and Brazil) increases the probability that the virus migrates to the US. Travel restrictions are less effective when a virus has already spread to multiple countries.

## EXPECTED MARKET IMPACT

**There will be an economic impact.** Some expect the impact to first quarter GDP to be approximately 20 basis points, slowing growth from 1.4% to 1.2%. It is likely to be far worse in China.

**The length of disruption is unknown.** COVID-19 is a novel coronavirus, but two other coronaviruses, MERS and SARS may be indicative. MERS lasted approximately six months and SARS lasted almost two. Viruses often peter out of their own accord. The number of precautions (travel restrictions, quarantines and isolation policies) will ultimately determine how long the disruption lasts.

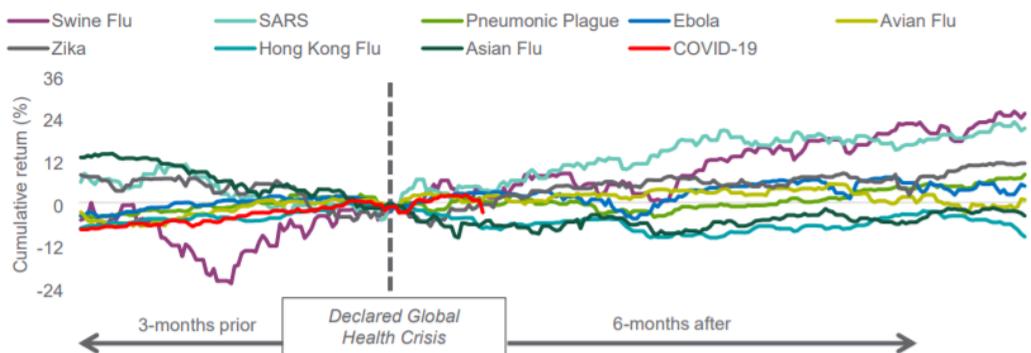
**Companies will be impacted.** We expect more companies to lower their expectations for the first quarter (Apple and Mastercard as recent examples) and potentially the second. We expect the impact to be largest at companies with exposure to Asia either through sales or supply chains, oil and other commodity producers and travel-centric companies.

## HISTORICAL CONTEXT

While the Centers for Disease Control recently confirmed the first possible community spread coronavirus case in the United States, we remain confident a potential economic fall-out would still be manageable. Past viral outbreaks suggest modest economic headwinds of limited duration.

The **chart below** shows that out of eight prior outbreaks, equity returns were higher six months post-outbreak 75% of the time. While the size and scope of COVID-19 remains unknowable at this time, we are hopeful that the precautions being taken by the World Health Organization and the Centers for Disease Control will stem the spread.

Prior episodes generally showed market snapbacks, but the economy is more global today.



Cumulative Return (%)	Asian Flu 1956-58	Hong Kong Flu 1968-69	Pneumonic Plague 1994	SARS 2002-2003	Avian Flu 2006	Swine Flu 2009	Ebola 2014	Zika 2016	COVID-19 2020	Median
3-months before declaration	-12.1	6.7	2.8	-6.3	1.8	4.1	2.8	-8.1	7.1	2.8
6-months after declaration	-2.8	-8.7	9.0	22.0	1.8	26.2	5.7	12.1	-1.8	5.7
Total period	-14.6	-2.6	12.0	14.3	3.5	31.4	8.7	3.0	5.2	5.2

Source: Northern Trust Asset Management, Bloomberg, World Health Organization. Cumulative returns shown for S&P 500. Indexed to show return in periods 3-months prior and 6-months following declaration date. COVID-19 declared Global health Crisis on January 30, 2020. COVID-19 data through 2/24/2020.

## CONCLUSION

Stock ownership is never worry free. However, history has shown that long-term investing provides far better results than trying to market-time based on the latest fear-inducing headline. We understand your concern and will continue to monitor the situation as it develops.

If you have questions or would like to discuss your portfolio in greater detail, please do not hesitate to contact your [relationship manager](#).

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