

IN THE **moment**

How COVID-19 may affect you

Introduction

The novel coronavirus (nCoV) discovered in 2019, also referred to as COVID-19, has become responsible for a global panic regarding its potential spread.

This is having a significant effect on global travel, investment markets and the global economy.

What is COVID-19?

COVID-19 is part of a large family of viruses that cause illness ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome

(MERS-CoV), which originated from camels and Severe Acute Respiratory Syndrome (SARS-CoV), which originated from civet cats.

Who may be affected?

Initial cases in Wuhan, China were associated with local food market, indicating infection through food, but later cases appear to have been caused by human-to-human transmission. COVID-19 is primarily spread through respiratory droplets, which means to become infected people generally must be within two metres of someone who is contagious and has come into contact with these droplets. It may be possible that people can get COVID-19 by touching a surface or object that has the virus on it and then touching their own mouth, nose or possibly their eyes.

infection can cause pneumonia, severe acute respiratory syndrome, kidney failure and even death.

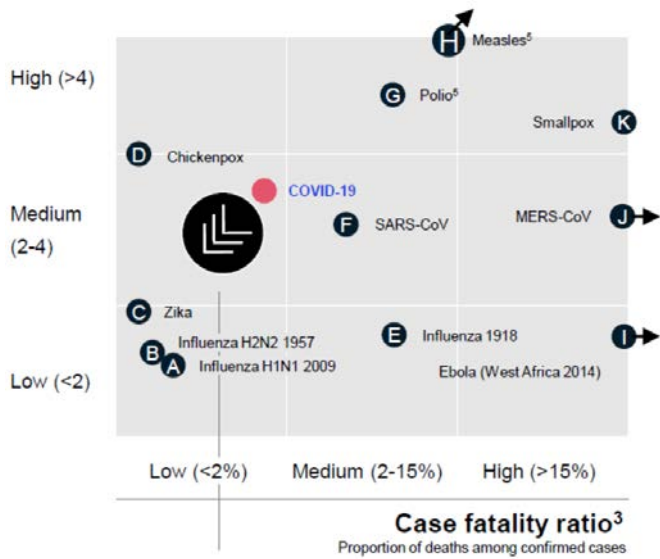
To date, the epicentre of the outbreak lies in China, with Wuhan and Hubei province being the most affected locations. The virus has spread to a number of other countries to a varying degree with more than 82 000 reported cases and more than 2 800 deaths reported. COVID-19 has not only affected the lives of many people but it has increased the complexity of global trade with China, with the logistics sectors being severely affected.

According the World Health Organization (WHO) common signs of infection appear within two to 14 days of exposure and include respiratory symptoms, fever, cough, shortness of breath and breathing difficulties. In more severe cases,

The key self-prevention approach is to keep surfaces clean and washing hands (when coming into contact with potentially infected surfaces) regularly.

Infection and mortality

The element of hysteria is understandably a concern because of infection and potentially death. The following graphic gives the current comparison of COVID-19 in terms of its level of contagiousness (medium) and level of mortality (2% low).



Source: McKinsey & Company, Coronavirus COVID-19: Facts and Insights, page 4. [Online] Available from [mckinsey.com/~/media/McKinsey/Business%20Functions/Risk/Our%20Insights/COVID%2019%20Implications%20for%20business/COVID-19-Facts-and-Insights-February-28-2020-McKinsey.ashx](https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Risk/Our%20Insights/COVID%2019%20Implications%20for%20business/COVID-19-Facts-and-Insights-February-28-2020-McKinsey.ashx). [Accessed: 5 March 2020]

While the mortality rate is low and hence not the key concern, the high levels of potential transmission are. It is instructive to understand that the virus causes fatalities predominately in the older people and those whose immune systems are compromised:

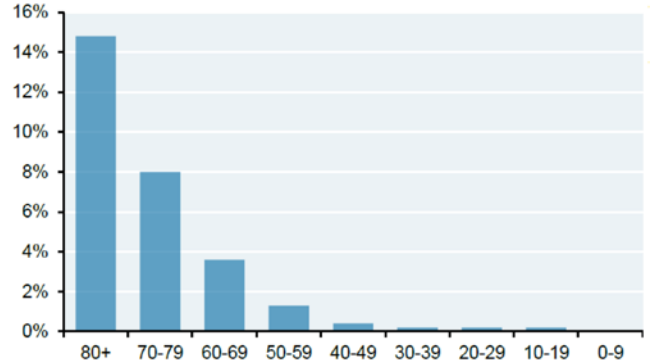
Therefore, children and the working population are less affected. However, these are the groups who have the

Economic effect

As individuals are avoiding contact to avoid infection, factories and retail centres are not being occupied. The shutdown of parts of the Chinese economy has a broader effect, as many global industries are reliant on parts built in China (particularly electronics, furniture, machinery

and apparel). The breakdown of these supply chains has further knock-on effects.

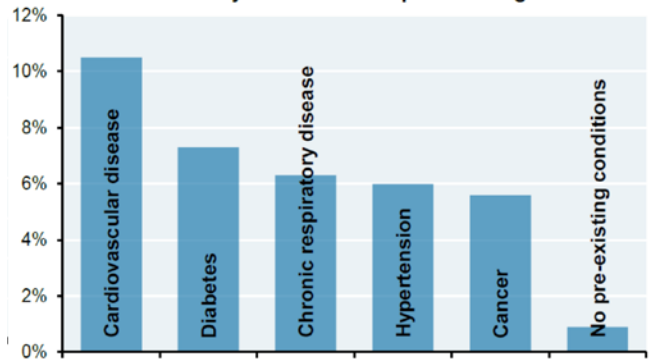
Coronavirus mortality rate by age



Source: Chinese Center for Disease Control and Prevention, February 2020

COVID-19 is particularly lethal for those with compromised lung capacity. China is expected to have higher mortality rates, as it has high smoking rates and terrible air quality. South Africa would similarly have higher mortality given relatively higher levels of HIV and TB infections.

Coronavirus mortality rate based on pre-existing conditions



Source: Chinese Center for Disease Control and Prevention, February 2020

and apparel). The breakdown of these supply chains has further knock-on effects.

Similarly, as the virus spreads to other countries, these will suffer similar consequences.

Three scenarios for how COVID-19 could evolve

Scenarios for stress testing and contingency planning – what you have to believe

	Quick recovery	Global slowdown (BASE CASE)	Global pandemic and recession
Late Q1	<ul style="list-style-type: none"> Ex-Hubei China economic restart >80% relative to pre-outbreak levels, with large industrials leading while small-medium enterprises slower Hubei starts to return to normalcy in March; result of a large-scale health response having an effect <p>Community transmissions in East Asia (South Korea, Japan, Singapore) and Europe (Italy, etc.) are brought under control</p>	<ul style="list-style-type: none"> Continued path to recovery in China. Ex-Hubei China economic restart >80% relative to pre-outbreak levels, with large industrials leading while small-medium enterprises slower Moderate decline in private consumption and exports of services 	<ul style="list-style-type: none"> Ex-Hubei China economic restart >80% relative to pre-outbreak levels, with large industrials leading while small-medium enterprises slower
End Q2	<ul style="list-style-type: none"> Community transmissions in Middle East are controlled Consumer confidence starts to return, even in setting of community transmissions, due to lower case fatality ratio, case growth slowdown, promising treatment options; consumer demand persists, especially in certain sectors (e.g., food, necessities via online channels) 	<ul style="list-style-type: none"> China at near-complete economic restart by Q2. Hubei is back to normalcy, a result of a large-scale health response and containment measures having an effect East Asia, Middle East, and Europe see continued case growth, contributing to perception of “leakage,” impacting economic growth in all three regions. Each goes into lockdown, either government, company, or self-imposed. Early Q2 is the first time they see a reduction in new cases in certain complexes. Newer complexes see localized transmission 	<ul style="list-style-type: none"> Generalized, global spread – East Asia, Middle East, and Europe transmission complexes all see continued case growth until mid-Q2, potentially with less robust health / containment response; mid-to-late Q2 is the first time they see a reduction in new cases COVID-19 resistant to seasonal effect, or results in higher transmissibility, before health systems can detect and react effectively at scale; continues to expand to other parts of the world
Mid Q2	<ul style="list-style-type: none"> Cases peak in multiple regions; evidence mounts that the virus is not resilient to seasonality Aviation, tourism, hospitality sectors back to normal as countries lift travel bans 		
		<ul style="list-style-type: none"> Consumer confidence dampened through Q2 and potentially Q3. Demand recovery depends on evolution of disease, considering potential impact of seasonality, fatality levels Impact and recovery differs by sector – e.g., aviation, tourism, hospitality sectors longer to rebound than consumer goods 	<ul style="list-style-type: none"> Substantial demand shock that lasts through bulk of year – fall in private consumption, level of exports and services, financial market “contagion” Consumer confidence remains anemic, although certain sectors might recover earlier; air travel restrictions remain in place until late 2020
	Intra-complex transmission contained; economic impact mostly restricted to Q1	Sustained intra-complex transmission. Global slowdown in 2020 – growth at 1.8-2.2%, down from 2.5% growth envisioned at beginning of year	Transmission jumps, new complexes. Global pandemic drives a recession that lasts bulk of the year

Source: McKinsey & Company, Coronavirus COVID-19: Facts and Insights, page 12. [Online] Available from [mckinsey.com/-/media/McKinsey/Business%20Functions/Risk/Our%20Insights/COVID%2019%20Implications%20for%20business/COVID-19-Facts-and-Insights-February-28-2020-McKinsey.ashx](https://www.mckinsey.com/-/media/McKinsey/Business%20Functions/Risk/Our%20Insights/COVID%2019%20Implications%20for%20business/COVID-19-Facts-and-Insights-February-28-2020-McKinsey.ashx). [Accessed: 5 March 2020]

The general consensus tends to be an immediate effect and a quicker recovery towards the second half of the year.

While equity markets have fallen, they are expected to recover once there are signs that infections are under control (reducing).

Why is there a correction in the securities market?

Due to the COVID-19 outbreak, equity markets collapsed around the world, as investors had begun to panic about the effect of the virus, which they had initially ignored. Global markets were hit by the worst sell off, with mass selling of an estimated \$6 trillion due to COVID-19 fears.

The JSE fell more than 4% at the beginning of March 2020, as fears of COVID-19 surged through equity markets around the world. Investors across the world sold shares and rushed into safe-haven investments, such as gold.

What happens to investment strategy?

Our portfolios are constructed with a longer-term investment outcome in mind. The expected shorter-term effect of the virus has not changed the long-term outlook. Equity weakness presents a buying opportunity.

In the shorter term, while there remains much speculation about the potential spread and effect, investors should expect a volatile market.

Clients should therefore be comforted by our robust portfolio construction that also holds a diversified basket of shares focused on delivery to the investment outcome.

Should I worry about the solvency of the insurance companies?

Insurance companies are in the business of taking risk. Their key target market (workers) is less affected by the virus. While there may be higher insurance claims, these will be offsets in other parts of the insurance portfolio (annuitants). Insurers also take out reinsurance to protect

their balance sheets. Globally, the reinsurers will come under pressure.

It is unlikely that any South African insurance company will be unable to meet its policyholder obligations because of the virus.

Does this affect your business?

COVID-19 affects all businesses, as many of their employees experience stress, anxiety, a sense of isolation and loss of control over their lives due to the increasing number of cases and deaths across the world. Local businesses have a responsibility to keep their employees well informed about the progress of the virus and ensure all

health and safety measurements are put in place to keep all employees safe.

The health and safety priority of all employees has now become of paramount importance for all businesses. It is likely many of your employees will remain at home but want to work remotely.

The key areas for business leaders to focus on are:

Protect employees

- Follow the most conservative guidelines available among leading global and local health authorities (for example CDC, WHO)
- Communicate with employees frequently; support any affected employees as per health guidance
- Don't create unnecessary exposure (for example certain companies curbing non-essential travel to all countries with community transmission)

Understand your COVID-19 response team

Create cross-functional and fully dedicated teams focused on:

- Employee wellbeing and continued productivity
- Define financial stress-testing scenarios and develop contingency planning
- Consider supply-chain disruption and mitigation
- Effect on marketing and sales
- Other relevant constituencies

Conclusion

COVID-19 will have a significant effect on the investment markets and the global economy. Most of this effect will come from the understandable reaction of people out of fear of infection. It is, therefore, important that there is preparation not only for the economic consequences but for the human ones too. While we cannot know what the final effect will be, we monitor the markets and the investment managers regularly with your investment outcomes as our

core mandate, balancing the return requirement with the ever-changing risk. The key during volatile times of uncertainty is to remain invested in a diversified basket and look through the short-term concern to the long-term goal.

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