

Novel Coronavirus Outbreak Update

March 5, 2020

Financial markets have remained very volatile as the number of individuals with the coronavirus disease (COVID-19) has continued to increase. Between February 12 and March 3, the MSCI ACWI Index fell by 10%, while the 10-year US Treasury yield dropped by over 60 basis points to around 1%, its lowest level ever. Gold gained 5%, and the price of oil fell by 8%¹. The last week of February was the worst week for global stock market returns since the Global Financial Crisis. Financial market weakness and expectations of a material softening in economic activity have prompted central banks to act. The US Federal Reserve cut interest rates by 50 basis points on March 3, in the first out-of-cycle move since 2008.

Economic growth in the first quarter in China is likely to be negative for the first time in decades. With the number of new infections falling, the people of China have started to go back to work, although it is unclear to what extent. The Chinese authorities will be closely watching whether the return to work results in an uptick in infections, requiring a further shutdown. After the sharp fall in the first quarter of 2020, the Chinese economy is likely to rebound strongly in the second and third quarters, assuming activity returns to something approaching normality.

We expect a sharp economic slowdown in the first half of the year in most economies, followed by a steep recovery. As economic activity returns to normal and lockdowns, quarantines and travel bans are lifted, strong global growth in the second half of the year should largely offset the weak, or even negative, growth in the first half. That said, some of the activity lost in the services economy in the first half of the year is unlikely to be recovered. We expect the overall growth rate for 2020 to be lower than our original forecasts. The spread of COVID-19 to more countries adds a significant degree of uncertainty to our outlook, and the inflection point in global activity which underpins this outlook may well be delayed.

Mercer will continue to monitor economic developments and the market environment. Should our views change, we will provide further communication.

¹ Markets data obtained from Thomson Reuters Datastream.

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