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Impact of Coronavirus (COVID-19) to the Asian Markets

Asia growth to slow - Our central view for global growth remains for a gradual pick-up to trend over 2020 but the impact of the virus will certainly detract from growth in the first half of the year, at least.

Volatility to increase

Volatility is likely to remain elevated in equity markets. The impact has been felt around the world and, to a large degree, reflects the temporary reduction in global growth and the uncertainty on how economies will adapt and markets will re-price assets.

- Volatility has been seen in Asian markets and markets have dropped generally.
- Increased volatility will mean a bumpy ride but investors are advised not to react without thoroughly considering whether they are motivated by what may prove to be short-term conditions.

Exchange rates with USD will be volatile

Volatility in the markets has also introduced volatility in currencies.

- Chinese Yuan volatility is likely to remain elevated.
- Turbulent currencies introduce a large number of risks, particularly to fixed-income portfolios. Investors should review their hedging strategies to ensure alignment with their investment objectives.

Growth in Asia, particularly in Mainland China and Hong Kong, will be negatively impacted in the first half of 2020.

Financial, consumer and cross-border activities have already experienced a slow-down. This will have a snowball effect on economies.

Strategic Asset Allocation should remain intact

Strategic Asset Allocation (SAA) should remain intact to focus on investment objectives, liability profile and cash flow requirements, which are often medium- to long-term considerations. Given the short-termism of many market participants, investors can also position themselves to improve outcomes by applying a longer-term investment time horizon, looking past shorter-term volatility and nearer-term economic news flow.

Asset class opportunities emerge

We are more optimistic on the outlook for emerging market equities and an attractive opportunity looks set to arise to increase exposure to certain asset classes, especially for investors with a medium- to longer-time horizon. Our overall stance on equities remains neutral relative to long-term expectations.

- It may be an opportune time for Asia's investors to consider increasing allocations to emerging markets in Asia.
- Equity valuations may become more attractive and are likely to rebound, with growth picking up after the impacts of the virus begin to ease.

Stress-test worst case scenarios

Stress-testing should be part of the SAA review process, and it is prudent for investors to consider down-side and shocks to their portfolios under extreme scenarios. Facing long-term impact from climate change and shorter-term hits like the coronavirus, investors should be more conscious of potential worst case scenarios and the risk tolerance of portfolios and adjust their SAA accordingly.

If we can be of assistance to your organization, please contact our Wealth consultants at:

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