

Coronavirus update: for investors, caution is warranted, not panic

10/03/2020  

Summary

As covid-19 spreads, fear of uncertainty has gripped the financial markets. Equity and oil markets have fallen, and investors have flocked to investments perceived as safer, including government bonds (particularly US Treasuries), cash (particularly the US dollar) and gold. Is this the right move? We believe caution is warranted, but we also think investors should pause before reflexively hitting the panic button.

Key takeaways

- The global economy was already late in the cycle, with growth expected to slow in 2020, and the combination of covid-19 fears and oil-price shocks could now trigger a recession
- More emergency measures from central banks are likely: they see a high risk of financial contagion and are ready to supply limitless credit to their markets and economies
- As the price of oil falls, energy stocks and high-yield issuers could suffer, but we expect the strongest to survive and eventually prosper from this reset
- This risk-off environment could continue for some time; if so, look for quality companies with low leverage, stable cash flows and good dividend yields as the more vulnerable parts of the markets sell off

A slower outlook for the global economy on multiple fronts

While scientists try to learn more about the new coronavirus (covid-19) and public health officials seek to contain its spread, there is no doubt that there are multiple causes for economic concern:

- The disruption to supply chains remains significant, particularly across Asia; this will likely hurt global growth prospects for the first half of 2020.
- Travel and tourism have dropped, hurting a range of related sectors — from airlines to hotels. France, Italy and Spain generate a significant portion of their GDP from tourism, increasing the risk of a recession in the euro zone. The risk of a global recession has also gone up.
- The price of oil has plummeted on news of slowing global demand and OPEC's move to flood the markets with oil. The oversupply issue has happened before, but it's the combination of a supply glut and demand drop that the market is really struggling with.
- The slowdown running through many global supply chains may cause a cash and credit crunch if corporations and individuals are unable to pay their bills. Governments (particularly in China) could see declining tax receipts, which may raise debt levels further. These developments could curtail the investments that the economy needs.

In response, central banks have stepped in. The US Federal Reserve has made emergency moves, cutting short-term interest rates and increasing excess reserves in the banking system to ensure a functioning repo market. Responses like these suggest that central banks see a high risk of financial contagion and are ready to supply limitless credit to their markets and economies.

Economic damage may spread

Central banks were already running out of ammunition to spark a turnaround after the next crisis — and the spread of coronavirus certainly has all the hallmarks of an economic emergency. But lower interest rates and more quantitative easing will not cure the virus nor assuage people's worries. As this contagion widens, we fear this outbreak will be met with ever more economically damaging containment measures before it comes under control. As a result, we expect to see continuing stress inside many of the most vulnerable industries and economies.

Could the spread of covid-19 and the collapse in the oil price trigger a global recession? It's possible. The global economy is quite late in the economic cycle, and it was already facing record corporate margins and record levels of debt — private-sector leverage is particularly high in China and the US.

Implications and actions for investors

- *Low oil prices will likely turn around.* As the price of oil falls, it's not just energy stocks but high-yield issuers that will suffer. US shale may be the biggest casualty for now, but we expect the strongest to survive and eventually prosper from this reset. Once China's economy comes back online, expect its demand for oil to reaccelerate.
- *Look for quality amid the confusion.* In the short term, we think investors should look for quality companies with low leverage, stable cash flows and good dividend yields as the more vulnerable parts of the markets sell off.
- *Risk-on/risk-off swings may continue.* Covid-19 is prompting many large investors to take profits, hedge massively and invest defensively rather than pursue value and returns. As ETFs and other indexed investments encounter high outflows, they will be forced to liquidate some holdings. These pressures could lead to additional mispricing that lessens confidence for all investors. But we have already seen large "risk-off" swings followed by large "risk-on" moves — though we don't expect the markets overall to become enamoured of risky assets anytime soon.

1114673

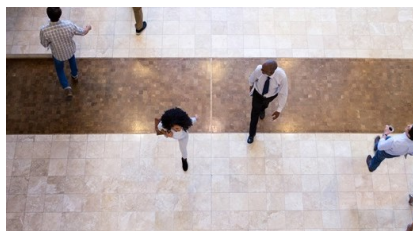
Want to view more?



Coronavirus: impact and analysis

China's return to growth should help equities and corporate credit in North Asia

→ [DISCOVER MORE](#)



Coronavirus: impact and analysis

Two ways credit can add relative value as the cycle turns

→ [DISCOVER MORE](#)



Coronavirus: impact and analysis

Coronavirus spread forces investors to think again

→ [DISCOVER MORE](#)

27/02/2020



Coronavirus: no imminent end to uncertainty

13/03/2020  



Summary

What's unnerving for markets is that the full downside risk of the coronavirus is difficult to quantify. And it comes when the world economy is facing a downturn, central banks have little policy ammunition left and global leverage is again at record levels. While there are typically several conditions that signal when a bear market in risk assets has come to an end, we don't think all these conditions have been met. Investors should, therefore, remain cautious as the economic effects of the coronavirus continue to spread.

Key takeaways

- Investors will be looking for the best time to re-enter the market, but it is too early to say that market capitulation is over
- Quantifying the downside risk is difficult: we don't know how far or how fast the virus will spread nor how long it will take to contain it
- While expansionary monetary and fiscal policy can mitigate an economic downturn, the events of recent days have shown there are limits to what policy changes can do
- Valuations have begun to normalise, but they are still mixed and are not yet at resounding buy levels, leaving market volatility high
- Cyclical data are not yet capturing the economic downward trend that began in mid-February, so have not yet bottomed out – we expect resulting revisions in growth and earnings forecasts to weigh on the price of risk assets

↓ [LOAD MORE](#)

Disclaimer

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP (Australian Registered Body Number 160 464 200) is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors Distributors LLC, distributor registered with FINRA, is affiliated with Allianz Global Investors U.S. LLC; Allianz Global Investors GmbH, an investment company in Germany, authorised by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors Asia Pacific Ltd, licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd, regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co, Ltd., registered in Japan as a Financial Instruments Business Operator (Registered No. 424) The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association and Investment Trust Association, Japan; and Allianz Global Investors Taiwan Ltd, licensed by Financial Supervisory Commission in Taiwan.

Our firm

[Why partner with us](#)

[A brief history](#)

[Inclusion & diversity](#)

[Sustainability](#)

[The SeaCleaners](#)

[Our leadership team](#)

[Our experts](#)

[Careers](#)

[Contact us](#)

Insights

[Outlook & commentary](#)

[Investment themes & strategy](#)

[Why active?](#)

[2020 Outlook](#)

[Coronavirus](#)

[Update Magazine](#)

[The Investment Intelligence](#)

[Podcast](#)

[Staying active](#)

Capabilities

[Alternatives](#)

[Equity](#)

[Fixed income](#)

[Multi asset](#)

[China A-shares](#)

[Research](#)

[risklab](#)

Press centre



Allianz Global Investors is comprised of the [AllianzGI Affiliated Entities](#) worldwide. Product availability will vary by jurisdiction.