MEDIA RELEASE

# What you need to know about the virus outbreak

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***For Immediate release***

Please find below our market commentary on the coronavirus outbreak.

**Overview**

Concern over the recent coronavirus outbreak has mounted, dampening both sentiment as well as markets. As preventive measures/quarantines against the outbreak are enacted during the high traffic Chinese New Year season, this would dent consumer spending and services.

The impact must be assessed against the Severe Acute Respiratory Syndrome (SARS) epidemic in 2003. Health authorities in China have reported that the death toll has hit 132 as of Wednesday 29 January 2020, or just over 2% of the 5974 who had been infected. This looks relatively more benign compared to the mortality rate of SARS at 11%. Based on the experience with SARS, the equity markets will likely recover after the number of confirmed cases fall from peak levels.

We are positive that over 15 Chinese cities, including Wuhan as the epicentre, have been placed on quarantine to stem the spread of the coronavirus, in addition to tightened controls between Hong Kong and the mainland.

**Market impact**

For now, equity market volatility is likely to spike in the short term given the unknowns, increasing confirmed cases and the continued changes on risk assessment by the World Health Organization. Even the medical profession is grappling with the assessment of the new virus which means quantifying the impact to the economy at large is challenging at best.

**Déjà vu**

While SARS dented global markets in early 2003, investor sentiment recovered upon control of the outbreak. To put things into perspective, the MSCI China and Hang Seng Index rose 93% and nearly 50% respectively from the lows in April 2003 after tumbling around 15% from the start of 2003. Hence, fundamentally, an economic impact on Hong Kong is unavoidable in the short term, but we expect long term material impact to be unlikely. Our portfolios have insignificant exposures to airlines, transportation, hotels, casinos and luxury brands related sectors – these are likely to have a more direct impact due to the lowered number of travelers and spending appetite.

**Risk and recovery**

The short term uncertainties could trigger concerns on the sector outlook in the near term and see more volatile reactions on share price movements. For now, the overall risk premium to China and Hong Kong markets would increase because of uncertainty. In the longer term, material impact would be negligible and asset prices would recover when the number of confirmed cases peaks out. Consequently recovery to the general economy should only surface in the second quarter of 2020.

**Market outlook**

For 2020, our views on technology hardware, consumption upgrades (such as e-Commerce, online contents and higher education) and healthcare remain intact in the long run. No material changes have been made to portfolio allocation as our exposures in potential affected sectors are limited.

Given that China remains a long term opportunity, we may try to take advantage of buying opportunities amidst the current climate of caution. We remain with our bottom-up analysis and will adjust accordingly to valuations and the change of the developments.

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Premium China Funds Management (PCFM) is a boutique funds management group providing specialist Asian equity and fixed-income funds to both Australian and New Zealand investors.

Capturing the growing economies and influence of emerging Asia, PCFM has developed 4 actively managed funds - the Premium China Fund, Premium Asia Fund, Premium Asia Property Fund and Premium Asia Income Fund.

The funds are managed by a large and experienced team with offices in Hong Kong, Shanghai, Singapore and Kuala Lumpur. The directors and investment managers of Premium and its fund offerings have extensive knowledge in Asian equity and credit markets, wealth management, and other financial services.

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