



What Coronavirus Means for Markets Now and Longer-Term

by Robert Sharps, Group CIO, T. Rowe Price

Q: What is driving current market volatility?

Markets don't like uncertainty, and there's a tremendous amount of uncertainty right now regarding how severe and how prolonged the impact could be. There's just still a lot we don't know about how widespread the virus will be and the ability of healthcare systems around the globe to handle it.

Basically, I think you do have some fear creeping into the marketplace. I think people are starting to understand that management teams are much more cautious at this point. They're focused on contingency planning and business continuity as opposed to hiring and expansion. And I think individuals are at this point reevaluating many of their plans and are becoming more cautious. Travel is being delayed and deferred.

When you overlay that on top of the fact that people were anticipating a recovery in earnings that we haven't seen a tremendous amount of evidence of and some of the other uncertainties prevalent in the marketplace particularly around the U.S. presidential election, I think it's reasonably natural you would expect a fair bit of volatility. We'd gone through a period where in 2019, returns were pretty robust in a number of areas in the markets and expectations were reasonably high. We're going through a process now where those expectations are being recalibrated.

Q: What is the more immediate market impact of the virus outbreak?

I anticipate at this point, more volatility. I think until we get a little bit more certainty about when behavior will revert to normal and where we get back to a little bit more business-as-normal, I think you could anticipate that we continue to have heightened levels of volatility. In terms of whether the volatility is creating a buying opportunity, I think to some extent it really depends on your time horizon. It also depends on what areas of the market that you are looking at. There are certain parts of the market that are really impacted in the short term by the spread of the virus. Travel-related industries, hotels, gaming, airlines, many of those stocks are down 30, 40 percent. Industrials, which were already in a manufacturing recession partly as a result of the trade war, which again were anticipating a pickup in activity, that's been delayed, and they can be impacted by some of the supply. If you can find the companies that will ultimately emerge from this shorter-term or even intermediate-term disruption stronger, then you are getting a look to buy them at historically attractive valuations.

Q: Does the outbreak alter your longer-term outlook?

I don't see any meaningful structural imbalances in the economy right now. I think there certainly is a scenario where the virus comes back in the fall and winter and we must contend with this again. I think once we've been through this, we'll know more. Human cost aside, I don't see this having any meaningful or long-lived impact on the



underlying economy. It will be important from an investment perspective to be sure you're investing in things that come out as strong or stronger on the other side of this. But I think when you look out certainly six months, 12 months, I don't think that what we're going through right now ultimately will alter the fundamental investment thesis of many or most of the things we're invested in.

Q: How are T. Rowe Price investment professionals responding?

I'm not seeing any wholesale change from our portfolio managers in response to the volatility. What I am seeing is some carefully implemented, very proactive ideas that are being backed by our research where we're really trying to increase exposure to companies where the share prices have become detached from very strong longer-term fundamentals.

Over the course of the last week we've seen research notes come from our hundreds of equity and credit analysts around the globe highlighting emerging opportunities. I'd say there are broadly opportunities where you have securities that are starting to become disconnected from the longer-term fundamentals. You have research notes that are highlighting opportunities in shares of transportation companies, airlines, hotels, gaming companies. You have research notes from credit analysts highlighting instances where we see unique opportunities among specific credits across non-investment grade issuers in the US or emerging markets issuers in Asia.

If you have a longer-term orientation, don't let the psychology of fear take hold, ground your decision making in analysis and in research, that you can take advantage of opportunities that these sorts of market environments either have presented or will present as we work our way through what's likely to be a quite challenging period for the next several weeks if not the next several months.



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