



Coronavirus Concerns Shift to New Outbreak Areas

Spread of virus and policy responses will govern long-term impact

February 2020

KEY INSIGHTS

- Near-term market volatility could persist as the coronavirus outbreak will remain a concern in the coming months.
- If new global outbreaks are contained, markets could stabilize as the rate of the spread of the coronavirus in China appears to have eased.
- The impact on Chinese and global economies remains unclear. The policy responses by major central banks form a key area of focus.



Chris Kushlis
*Fixed Income Sovereign Analyst,
Asian Markets*

The coronavirus (COVID-19) outbreak will likely remain the primary driver of short-term market sentiment. The recent spike in new cases in Italy, Iran, and South Korea shows that the global impact is unpredictable despite signs that the infection rate in China could be stabilizing.

Although it is too early to determine the full extent of these outbreaks, the meaningful jump in cases adds to market nervousness and will drive near-term volatility. Below are our latest views on some of the key themes we are monitoring.

New Global Outbreaks Could Bring Near-Term Volatility

Markets could remain volatile amid concerns about the virus's spread outside of China. Sentiment had calmed in recent weeks on the back of growing signs that the infection rate in China had stabilized. However, the

emergence of potential new outbreak centers in Italy, Iran, and South Korea revealed that markets may have been underpricing the threat posed by COVID-19. Further volatility is possible as these outbreaks evolve and potentially spread to other countries.

Calm could return if the new outbreaks are contained quickly. The spread of COVID-19 within China, the source of the outbreak, appears to have eased over the past week and a half. However, the total case count will likely remain elevated for some weeks with the potential for infection rates to accelerate again. Overall, we remain focused on the regular data updates both within China and internationally.

The fluid nature of the COVID-19 outbreak makes it difficult to predict short-term market moves. In this environment, we believe it is important to keep a longer-term perspective on markets. Broken down by asset class, our near-term outlook is as follows:

“The recent signs that the spread of the coronavirus in China has peaked could point to a potential recovery in the second quarter.

- **Equity**—After a period of calm, volatility and weakness could continue in the near term as news surrounding the new outbreaks develops. Asian markets will likely see ongoing volatility as new cases in South Korea will likely rise further.

Looking longer term, we are monitoring for supply-chain disruptions and sectors that could be the hardest hit. The auto sector and commodity-linked names could experience greater volatility than others. Near-term market dislocations could open up pockets of opportunity. Certain sectors could emerge relatively unscathed, and individual names with strong fundamentals could rebound once the global outbreak is under control.

- **Fixed Income**—If the new outbreaks escalate, global demand for high-quality fixed income assets will likely keep core developed market yields suppressed. Short-dated core government bonds could potentially outperform in the near term. Italian spreads versus core eurozone bond markets could widen as investors shift to safe-haven regions.

Risk sectors of fixed income, including credit and emerging market hard currency bonds, held up relatively well in the initial COVID-19 volatility. However, if the global outbreaks escalate, these sectors could come under pressure in the near term. This potentially opens up longer-term opportunities in sectors offering the strongest fundamentals. The Asian high yield sector could be an attractive opportunity when markets recover.

- **Currencies**—COVID-19's expected impact on global growth will likely translate into currency market moves. We continue to expect the People's Bank of China (PBoC) to manage the renminbi within a tight range despite the potential for moderate depreciation against the U.S. dollar.

We could see further weakness in Asian currencies, particularly if the global outbreak spreads. Currencies of commodity-producing emerging market countries may also see downward pressure if commodity prices decline due to reduced global demand.

China Could Rebound Later in 2020

The spread of COVID-19 has already reached a point where it will significantly impact the first-quarter economy. In China, a negative quarter-on-quarter growth rate for the first quarter of 2020 is likely.

The return to normal manufacturing operation has been slow due to travel disruptions and quarantine efforts disrupting the return of workers to factories following the Chinese New Year holidays. While we have started to see improvements in various metrics, it will still take at least two to three weeks for levels to return to normal.

The outlook beyond the first quarter is still unclear. The recent signs that the spread of the coronavirus in China has peaked could point to a potential recovery in the second quarter.

The situation outside of China depends on whether the spread of the virus escalates further in other regions. Overall, the spread of COVID-19 globally has not reached a level that we believe will severely weaken the long-term growth outlook in the U.S. and other developed economies. However, the recent outbreaks in South Korea and Italy give cause for concern. Italy's economy was already weak, and the domestic outbreak, even if short-lived, will likely negatively impact growth data.

Central Bank Policy Responses Evolving

We expect global central banks to continue to take a wait-and-see approach. China's initial policy response focused on crisis management. Authorities implemented interest rate cuts alongside targeted

fiscal stimulus to support the corporate sector. The coming weeks could feature additional stimulus measures along these lines.

The focus of the political leadership is shifting from all-out containment to a more balanced approach between containment in areas where the virus is still severe and promoting a return to work in areas where the virus appears to be easing. The authorities also still appear determined to keep growth on track, at least 5.6% this year, which is the minimum needed to hit their doubling of incomes target over 2010–2020. Over the weekend, the Politburo endorsed more forceful monetary and fiscal stimulus policies to meet this goal. Following this directive, we expect the PBoC and Ministry of Finance to roll out more detailed medium-term stimulus measures over the coming months. However, if policymakers decide that they are willing to sacrifice the growth target,

we would expect more modest stimulus measures. In this case, growth could fall to around 5% or below on the year.

In some areas elsewhere, we think markets may be overpricing the possibility of rate cuts. However, if the new outbreaks outside of China continue to escalate, the outlook for monetary stimulus could change. Specifically, if quarantines lead to a significant loss of working days in Italy or elsewhere in Europe, the European Central Bank would be more likely to act.

Overall, the spread of COVID-19 globally has not reached a level that we believe will severely weaken the long-term growth outlook in the U.S. and other developed economies. We remain vigilant in monitoring the real-time news flows that could trigger market swings while also keeping our focus on the long-term picture.

INVEST WITH CONFIDENCESM

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

T.RowePrice[®]

Important Information

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

Important Information (Continued)

Australia—Issued in Australia by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

Brunei—This material can only be delivered to certain specific institutional investors for informational purpose upon request only. The strategy and/or any products associated with the strategy has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

China—This material is provided to specific qualified domestic institutional investor or sovereign wealth fund on a one-on-one basis. No invitation to offer, or offer for, or sale of, the shares will be made in the People's Republic of China ("PRC") (which, for such purpose, does not include the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the PRC. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the PRC. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the PRC that are expressly authorized under the laws and regulations of the PRC to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the PRC. Potential investors who are resident in the PRC are responsible for obtaining the required approvals from all relevant government authorities in the PRC, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the PRC, or nationals with permanent residence in the PRC, or to any corporation, partnership, or other entity incorporated or established in the PRC.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA ex-UK—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

Hong Kong—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

Indonesia—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

Korea—This material is intended only to Qualified Professional Investors upon specific and unsolicited request and may not be reproduced in whole or in part nor can they be transmitted to any other person in the Republic of Korea.

Malaysia—This material can only be delivered to specific institutional investor upon specific and unsolicited request. The strategy and/or any products associated with the strategy has not been authorised for distribution in Malaysia. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

New Zealand—Issued in New Zealand by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

Philippines—THE STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

Singapore—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

South Africa—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

Taiwan—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

Thailand—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

UK—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

USA—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2020 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.