Coronavirus Outbreak: How to Protect Your Portfolio if the Virus Continues to Spread

Description

The outbreak of the coronavirus in China is starting to have an impact on global markets.

The disease, which is from the same family as SARS, has now made it to several countries. At the time of writing, there are more than 2,000 known cases worldwide.

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Most cases remain in China, where the disease was first detected in the Wuhan region, but confirmations have now occurred in at least 10 other countries, including the U.S., France, South Korea, Nepal, Japan, Thailand, Taiwan, Vietnam, Australia, and Singapore.

Canada also has its first suspected case.

In the first few weeks the disease was identified, global financial markets effectively ignored the potential threat. Now that the case numbers are rising, traders are beginning to build defence into their portfolios, as the risk of a global economic slowdown becomes more of a concern.

Bond yields fell January 24, indicating investors are moving funds to government debt. The price of oil fell more than 7% in the past four trading days, marking the worst week for the commodity since July.

How to protect your portfolio

Gold picked up a tailwind in recent trading, hitting a two-week high on January 24.

This isn't a surprise, as gold is often viewed as a safe-haven asset when there is a perceived or real risk of financial turmoil. Gold buying could pick up steam in the coming days, especially if the number of coronavirus cases continues to rise, which is expected, and more travel restrictions are put in place for China.

Heavy media coverage and the fear of not acting quickly enough could drive a new wave of funds into gold and government bonds, as traders start to worry that consumer spending and business investment will drop.

As a result, gold and gold stocks might be attractive picks for investors today.

Gold price target

There is a risk that panic could creep into the financial markets in the near term and that could send the price of gold soaring back above US$1,600 per ounce. The yellow metal hit that level earlier in January after the U.S. killed one of Iran’s top generals.

The coronavirus outbreak is just one more factor added to an already sensitive global financial market. Middle East tensions, Brexit, and the U.S.-China trade war have already helped move gold from US$1,300 to the recent highs. In the event things get out of hand and global investors overreact, gold could potentially retest the 2011 highs above US$1,900 per ounce.

Gold stocks still appear cheap, even if the price of gold remains near current levels. **Barrick Gold** trades at $24.60 compared to more than $26.50 in August when gold first topped US$1,560. In 2011, Barrick Gold traded above $54 per share, so there is decent upside potential.

The gold miners have cleaned up their balance sheets in recent years and made their operations more efficient. Barrick Gold produced 5.5 million ounces in 2019. If production in 2020 comes in at five million ounces, a sustained US$300 increase in the price of gold would translate in to an extra US$1.5 billion in cash flow, assuming all cost structures remain steady.

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That would potentially turn Barrick Gold into a free cash flow machine and lead to higher dividends and a rising stock price.

Should you buy gold stocks now?

Hopefully, the coronavirus we be contained quickly and that driver of the gold market will peter out. Investors should thus evaluate the gold opportunity based on the other supporting factors.

Falling bond yields, geopolitical threats, and ongoing trade disputes should all remain positive for gold in 2020. With this in mind, it would make sense to add gold stocks to your holdings right now.

In the event the coronavirus outbreak gets worse, having gold exposure in your portfolio should provide an additional hedge against potential weakness in other industry sectors.

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