Coronavirus: Is Your Portfolio Ready for a Global Pandemic?

Description

The viral outbreak in China this month could have grave consequences for everyone if left unchecked. At the time of writing, the Coronavirus strain has already infected 6,057 people and claimed 132 lives. That makes the Wuhan virus one of only a handful of recent outbreaks that have the potential to turn into global health crises.

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This isn't the first time our species has faced such a threat. Avian flu, Ebola, and the severe acute respiratory syndrome (SARS) that emerged in China 17 years ago all inspired a similar level of anxiety. Unsurprisingly, the anxiety had a chilling effect on the global economy and financial system.

Stocks declined 6% over the course of a month when the Zika virus reached epidemic proportions. Similarly, the stock market shed 13.7% over the three months at the height of the Ebola crisis, according to data analyzed by Market Watch. The stock market's reaction to the Coronavirus hinges on its severity and mortality rate over the next few months.

With that in mind, it may be a good time to check if your portfolio is sufficiently insulated from this market turmoil.

Exposure to China

China's economy was slowing down well before the virus broke out. The 6% growth rate in the last quarter of 2019 was the slowest pace of economic expansion since the first quarter of 1992.

Now, with several towns shut down, travel bans in effect, and work holidays extended, China's economy could dip further. Consumption and industrial activity could be particularly hard hit. This puts Canadian companies like **Canada Goose** and **Roots**, with extensive distribution networks in China, at risk of a slowdown in regional sales. In fact, most luxury retailers and brands rely on China to fuel growth and could be impacted from this shutdown.

International travel stocks

Travel stocks are also particularly vulnerable to global panic over viral outbreaks. **Air Canada**, for example, reported a serious decline in quarterly profits when travelers cancelled their flights to Toronto at the height of the SARS epidemic in 2002-03.

Over the past few weeks, the airline has lost roughly 14% of its value, as investors grow queasy about Coronavirus's impact on global travel. Canada, the U.S., and several other countries have issued travel warnings and restricted flights to the Wuhan region in recent weeks. If the virus spreads further, investors may have to brace for more losses in airline stocks.

Avoid panic-selling

If you're not exposed to travel stocks or companies that rely on China for much of their sales, the best way to protect your portfolio is to avoid the panic and hold tight.

Market Watch's research indicates that the stock market corrections triggered by global viral epidemics is usually short-lived. The **S&P 500,** for example, delivered a 20.8% return over the 12 months after the SARS epidemic was officially declared. The market also surged 36% in the 12 months after Swine Flu was declared.

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So, avoid the herd mentality and stayed focused on your long-term objectives, despite the growing sense of panic engulfing the markets at the moment.

I, for one, am hopeful that modern medicine and the digital tools we now have at our disposal will limit the virus's impact and prevent a global pandemic before countless lives are lost.

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