Richard Bernstein Advisors

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RBA Special Report - Quick Thoughts on China

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The coronavirus is a serious issue and there is nothing positive to say about it. However, investors must dispassionately assess the investment risks and opportunities. Because RBA has significant positions in Chinese equities, we thought it appropriate to share these brief thoughts.

RBA is NOT an event-driven firm

Although RBA is a macro-based investment firm, we have never been event driven. It may be difficult to understand in the era of 10-minute news cycles, but we are not trading around the coronavirus outbreak. We will assess the impact to global fundamentals as they evolve. If the coronavirus impact on corporate profits and overall economic growth is not transient, then there will be plenty of time to alter portfolios. There is always a temptation to sell stocks when potential disasters strike with the good intention of buying when the situation clears. Although it might sound smart to suggest such a strategy, we've never actually met an investor who can consistently time such exits and entries.

China GDP

To be frank, the attempts to contain the coronavirus and the associated public fears will knock the stuffing out of China's 1Q20 and potentially 2Q20 GDP and profits. However, the Chinese government is likely to respond with even more monetary and fiscal stimulus in addition to the massive stimulus already in the economic pipeline. If the virus is contained within the next several months, then Chinese GDP could be significantly stronger than expected during late-2020 and early-2021. Investors who are not short-term traders might want to consider short-term market downturns as longer-term buying opportunities.

Supply chains

Few have commented about a potential disruption to US companies' supply chains in China. One should consider inventories, order backlogs, and shipments, but analysts seem disconcertingly mum on the topic. Admittedly, there are several articles out this morning in the popular press regarding some technology and health care companies. Clothing, retail, foods, building materials, and many other industries could be affected. This could impact US and non-China GDP and corporate profits.

US market reaction

Because the bull market is older and valuations are higher, one should expect volatility to be higher than if the coronavirus outbreak occurred in the early or mid-stage of a bull market. Bad news is often shrugged off earlier in a market cycle, but can more easily accentuate volatility in late cycles when valuations are stretched and leadership narrows.

Coronavirus will likely further constrain globalization

Our "Decade Ahead" report focuses on the end of globalization (read it here). Although there are plenty of unknowns regarding the coronavirus, it seems relatively certain that the virus's spread will likely fuel the existing trend to restrict globalization.

Take your investment cues from scientists and not politicians

Investors should assess the severity of the virus and its spread based on information from expert virologists and scientists and not from politicians around the world. Hopefully the economic impact of the virus's spread will not lead to disinformation and discreditation of the actual experts. History shows well how politicians act during such tense situations, and there are already instances of misleading information emanating from China.

Every caring person hopes the virus is contained relatively quickly and people in China and around the world can resume more normal lives. The cold reality, however, is investors should remember this isn't the first epidemic to strike and it won't be the last.

If you have any additional questions on our thinking, please reach out to your regional RBA Portfolio Specialist.

