

The Outlook: Feb. 10, 2020

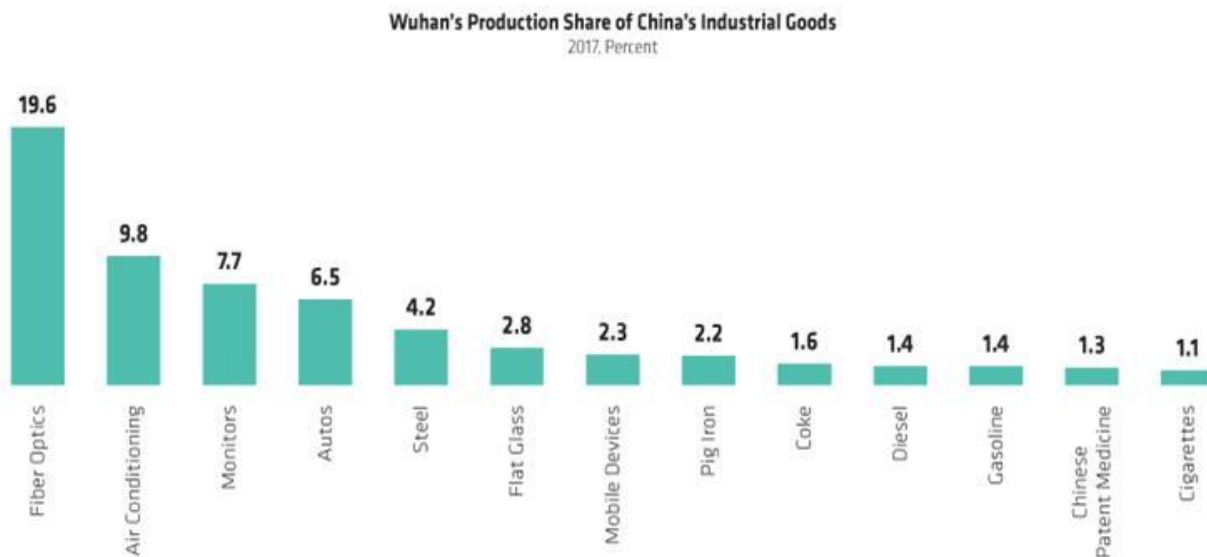
Shining a little more light on the market's Wuhan Virus Nightmare.

Outlook's clients and friends have heard our "Rule One" a few times: *Always Look at the Whole Picture; Always Find the Whole Story . . . and Never Let Impressions Do Our Thinking for Us.* It's "Rule One" because we're so strongly tempted to break the Rule, so often—and when we do we always regret it, whether we're deciding about investments or anything else.

That temptation has been infecting the investment world all year, as the markets grapple with this new year's nightmare: Wuhan Virus. Impressions have ruled the market's reactions, naturally. The first impression was that a global pandemic and global recession seemed near certainties. Just lately, that impression has given way to a hesitant "maybe not." Let us look, this morning, beyond either impression at a couple of facts which begin to fill in more of that "whole picture" we prize so highly.

- **Fact Number One: Wuhan (and Hubei Province) are big, but they're a long way short of being China's main engine.** That fact suggests the "whole picture" isn't quite as dark as we might think, from the impressions we've gathered so far.

How Important Is Wuhan to Chinese Industry?



As of December 31, 2017 (latest data available)

Source: China International Capital Corporation and AllianceBernstein (AB)

There's no question at all that Wuhan is out of business right now—those empty streets don't lie. But as this data shows, Wuhan is a pretty small part of China's economy. Its shutdown hurts, and ripple effects will keep spreading the pain in China and beyond . . . but it's a far cry from a knockout blow to China, much less the rest of the world. At Outlook we suspect most investors are a little surprised by this chart. We're surprised because the impression we've gathered, via all the grim headlines and pictures so far, is an impression of far-reaching paralysis spreading through China and sure to quickly infect the rest of the global economy.

- **Fact Two: Wuhan Virus is not the Black Death of the Middle Ages or the Spanish Flu of 1918.**

From the World Health Organization last Friday: In the first 17,000 or so cases, about 82% are mild, 15% severe and 3% critical.

From the American Medical Association Journal last Friday: Of 138 patients admitted to Zhongnan Hospital of Wuhan University in the first four weeks of January, 26% were placed in intensive care and 4.3% died.

We've all learned a lot about the science of viruses lately. That first study from the WHO significantly overstates the 18% "severe to critical" percentage, because of the certainty that many cases have not been reported, due to mild symptoms. Some experts think those unreported cases are at least equal to all reported cases, which suggests 6% to 8% of all infections cause "severe" symptoms, and 1% to 2% "critical" symptoms.

Shining a light on as much as possible of the "whole picture" always gives us perspective—which is always lost in the early stages of every nightmarish problem. That perspective usually tells us the nightmare has a real problem at its core—but not the catastrophe the problem seemed to be at first. Wuhan Virus is a "real problem" in spades; but the more of its picture we uncover, the less it looks like that economic knockout blow of its early days.

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