

# China, Stress Testing, and Factors: Market impacts during market crisis: Part 1

## *Featuring:*

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## **MARK CARVER**

My name is Mark Carver. I'm the head of equity factors at MSCI, and I'm pleased to play host to you today for discussion around the level of uncertainty surrounding the coronavirus. Joining me today is my colleague Raina Oberoi, who leads our solutions research team in the Americas. Raina, thanks for joining me.

## **RAINA OBEROI**

Glad to be here.

## **MARK CARVER**

The purpose of our discussion is to address the number of questions that we're getting from clients all over the world around how markets are behaving given the heightened uncertainty in the spread of information and the spread of the coronavirus. We're going to break this discussion into three parts. First, we're going to look at this current epidemic and relate it to past epidemics, most particularly the SARS environment. Secondly, we're going to look at how portfolios might behave by talking about stress testing portfolios and the results of those stress tests. And finally, we're going to direct a very common question that we're getting from clients, which is how our equity factor's behaving, particularly model factors and the factor indexes. Are they behaving how we might expect, or do we see some unintuitive or unexpected results from those, both model and index factors? So to kick us off, I'm going to turn to Raina and just ask you maybe think about the current environment and relate it to SARS. A lot of people like to look at past periods where maybe they can use that as context for how the markets might behave. But I think what we're seeing today is very different from what we saw in SARS or even other epidemics. Can you kind of walk us through why is what we're seeing today so different from what we've seen in past periods?

## **RAINA OBEROI**

Sure, Mark. I think it's a really fair question. When we started looking into this about a month ago, we started with SARS as well because that was our only frame of reference. But I think what really is different today is it is obvious, but not really obvious is that the role of China. China today is a much bigger part of the economy as a whole and the global footprint than it was in 2003. If you think about China's share of global GDP today, it's 16% versus 4% back in 2003. If you just relate it to our indexes, the #rate of China today in MSCI Emerging Markets is close to 34%, where it was only 8% in 2003. So you can see the importance of China. And if something happens in China, if there is some sort of a systemic issue in China, the impact 8% rate would have on the global economy versus a 34% rate is pretty obvious. Now, the other aspect of this is also that China is a lot more open to the world today. If you look at just in terms of global trade, China accounts for 11% of global trade versus back in the day it was 5% in 2003. So again, you see the importance of China has just grown, is just a part of globalization and it's just an effect that we cannot ignore. If you look at an additional lens that we look at, which is using our economic exposure data, which is basically mapping revenues to companies and countries and you look at just developed market companies and see what is their exposure to China, you could say they have no operations in China. You could say they are not domiciled in China, but how much of their revenue are they getting from China? And that's the way we measure exposure which is another different dimension of measuring the impact. And if you look at the same developed market group of companies and you compare how their revenue exposure has grown to China, it's more than tripled since 2006. So again, just to show you another dimension of the magnitude China has in today's economy.

#### **MARK CARVER**

And I think when we look at that data, it's direct revenue. So when we look at one market versus another, it's very comparable. So we're not looking at the supply chain or through the value chain. It's very direct revenue and that provides a level of comparability about the exposure in a market in greater China versus one in Europe versus one in the Americas. Is that true?

#### **RAINA OBEROI**

Absolutely, yeah. And I think that's the importance of having tools that are transparent, easy to explain, easy to understand and as a result, provide a very clear lens to portfolios.

#### **MARK CARVER**

Raina, thank you for joining me on this three part series and thank you to all of our clients who have listened in on this three part series as well. We are committed to providing you ongoing realtime information to address this level of uncertainty and make sure you have the data that you need to make an informed decision. Visit our website at [msci.com/coronavirus](https://msci.com/coronavirus) or follow us on LinkedIn to see all of our real time information as well as all the blogs that we've produced, research that we've produced year to date. Thank you very much.

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