

# ASIA WEEKLY: SARS—Common Stocks and the Uncommon Cold



For the Week Ended  
April 4, 2003

## Background

The first case of Severe Acute Respiratory Syndrome (SARS) can be traced to China's Guangdong province in November 2002. The virus has subsequently spread to 18 countries resulting in 2,322 cases and 81 deaths. With the exception of China and Hong Kong, international health authorities are, at this point, confident that the virus is contained in Asia.

## Economic Impact on Asia

The short-term economic impact of SARS is most likely to affect the aviation and tourism industries as airlines cut flights and hotel reservations are being cancelled as travelers heed travel warnings. Singapore Airlines<sup>1</sup> announced that it will cut 60 flights a week, or 14% of the airline's capacity. Thai Airways International<sup>2</sup>, Cathay Pacific Airways<sup>3</sup>, Hong Kong Dragon Airlines<sup>4</sup>, and Qantas Airways<sup>5</sup> also announced capacity cutbacks. Shares in Hong Kong's Cathay Pacific<sup>6</sup> fell 7% this past Monday and Singapore Airlines shares dropped by 12% over the past week.

Major business, sporting and entertainment events have experienced mounting cancellations. The World Economic Forum says it has postponed its annual China Business Summit, originally scheduled in Beijing later this month, due to fears over the virus. Teams from Italy, France and Argentina backed out of the prominent Hong Kong Ruby Sevens rugby tournament that took place during the last week of March. The Rolling Stones cancelled their highly anticipated concerts in Hong Kong, Shanghai and Beijing. Local Hong Kong residents are also staying at home, avoiding crowded shopping malls, restaurants and bars.

The SARS uncertainty combined with the war in Iraq has affected the short-term performance of Hong Kong's Hang Seng Index. The index experienced eight consecutive days of declines ending this past Tuesday resulting in a 6.5% loss during the period. Brokerage firms have already lowered their estimates for 2003 economic growth for the Asian region. For example, Morgan Stanley<sup>7</sup> recently lowered its economic growth forecast for Asia ex-Japan from 5.1% to 4.5%. Although lowered, Asia ex-Japan's 2003 estimated growth of 4.5% still compares favorably with Morgan Stanley's estimate of 0.8% growth for Europe.

## Conclusion

SARS appears to be under control in Asia outside of Hong Kong and China, and the decrease of newly reported SARS cases in Hong Kong and China is encouraging. In terms of management of the Funds, we remain fully invested, our investment philosophy remains unchanged, and we are continuing to monitor the SARS situation. The long-term economic impact of SARS will depend on how long it takes for the virus to be fully controlled.

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