financial planning corporation

Market comment - coronavirus

Mike Lea , Investment Director

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Introduction

We had initially planned to communicate to clients on asset class performance following the end of the first quarter, but it is appropriate to provide an interim update given the significant increase in market volatility we are experiencing.

On this occasion the culprit is coronavirus. Now, we are certainly not virologists here at FPC and as such will not try to predict the scale of the impact from a human perspective, which in any case is very fast moving and largely accepted as guesswork. It would however be reasonable to suggest that the spread and impact will get worse, before it gets better.

Therefore, you will not, at the end of this brief note, have further insight as to the pathology of the virus, which we will leave to other market commentators or more able institutions, such as the World Health Organisation (WHO). The purpose is simply to bring some clarity to how investment markets have reacted so far and offer a sense of longer-term perspective amidst the dramatic increase in headlines.

There is plenty of commentary around to digest and the news, presented as it is, naturally causes concern. Having tuned into Bloomberg Markets this morning I was greeted with - *'fear tightens grip on global markets, stocks plunge as coronavirus take hold'* - quite the headline, so we can understand the investor reaction that may invite.

"If you can keep your head when all about you are losing theirs…" **(Rudyard Kipling)**

In the past week I have heard different market commentators suggest that this event is both a threat and also an opportunity to investors. Neither points of view are based on any predicative power, though we can agree with certainty that one of them will be right.

Financial markets hate uncertainty and as companies across the globe report profit warnings due to the unknown impact of the virus outbreak, you can appreciate why volatility emerges as company valuations become uncertain. There will of course be a sharp impact to global economic activity but this should hopefully be short lived.

What is the impact on markets?

When we talk to clients about investing we frame the defensive and growth elements of a portfolio, each of which typically behaves differently, though both have been positive recently resulting in above average returns across the board. The defensive part invests in different types of bonds, whilst the growth part invests in company shares in the UK and across the globe. We talk about diversification a lot and for good reason. Having an appropriate asset allocation split between defensive and growth assets delivers less volatility overall and though it does not make portfolios immune from falling values, it does smooth the investment journey.

High level recent market performance has been as follows:

- The Bloomberg Barclays Sterling Aggregate index (sterling denominated government and corporate bonds) has a total return and high of **+4.2**% year to date.
- The FTSE All Share index (600 UK listed companies) has a total return of -9.1% year to date and -10.4% from the highest point on 17th January.
- The MSCI index (over 3000 global listed companies) has a total return of -4.7% year to date and -9.9% since the highest point on 20th February.

Given how inter-connected the world is, global shares can operate in lock-step, but each region does have its own dynamics and specific industry influence and will react differently to an economic slowdown. Therefore, a degree of regional and sector diversification is also very important.

For example, the UK FTSE All Share index has a top three sector breakdown of 27% Financials, 15% Consumer Goods and 11% Oil & Gas (the oil price has fallen by over 20% this year due to less demand for travel etc.) whereas the US S&P500 index has 24% Information Technology, 13% Healthcare and 12% Financials.

In previous market downturns there were specific sector casualties that never fully recovered, such as the unprofitable technology companies in 2000 and the leveraged banks in 2008. Had you been heavily invested in either sector, and remained so hoping for recovery, not only would you have seen a loss but you would have not benefited from the broader market recovery.

FPC clients have extremely broad exposure in portfolios to different assets, regions, sectors, and will have limited concentration to a maximum of around 1% in any single company.

What action should you take now?

We are certainly not dismissing the current situation but FPC's raison d'etre is to establish and monitor a financial plan that can weather the most probable of market environments. In light of the volatility we ask ourselves, does our longer-term strategic asset allocation or individual investment fund selection need to change? The answer is no.

However, we do appreciate the intensity of concern from clients will depend upon both their investment experience to date and at what stage of the investment journey they are on. At our autumn conference in Liverpool last year we used the metaphor of a first time flyer who experiences flight turbulence and the fear that accompanies it, compared to the seasoned traveller who expects there to be ups and downs as part of the same journey. Both reactions are entirely understandable.

There are perhaps three distinct client groups who may be experiencing different emotions now:

Those who are in **accumulation**, have little need for withdrawal, have been investing for many years and have benefited from rising values to date. Lower share prices on offer should be welcomed and provide an opportunity to add to investments, if possible.

Recent investors, also in accumulation, with little need for withdrawal but who have not experienced rising values to date. These clients may experience greater anxiety but should be assured that, in all probability, and over their investment time horizon, markets will recover and continue to grow in the years ahead.

Those who are **taking regular withdrawals** from their portfolio. The intensity of emotion from market falls may be highest here but we do not advise suspending withdrawals at this time. However, if that need arose, our approach encourages clients to hold significant cash reserves, which we monitor and actively top up looking many months if not years ahead so any short term gap in income requirements can be met.

This market event has caught investors off guard, but the emergence of a crisis rarely gives a warning. The financial and investment planning we undertake is suitable for each individual's circumstances. We do not advocate reacting to market falls by selling down to cash, as other questions then emerge such as, *'when do I re-invest?'* or *'how will I feel if this is the low-point?'*.

The investment journey has always been a winding not a straight road, and contending with the twists and turns is absolutely necessary for the creation of long-term wealth.

Closing comment

We will leave you for the moment with a chart showing the impact of dividend income on the total investment journey rather than simply the growth in share price.

The chart below represents the return profile of the FTSE All Share over the past 10 years. **Line A** includes the annual re-investment of dividends (+99%), as against **Line B** that is simply the price of the index (+38%).

This should be borne in mind, as it is the price of the index alone that makes news headlines, but it is the total return over time that counts.

If you have any queries please contact us 01704 571777:

Mike Lea FCISI

Investment Director

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mike@fpc.co.uk

https://fpc.co.uk/our-people/mike-lea/

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Please remember

This note does not constitute specific advice – do please contact us if you have any specific queries about your planning.

- Investments can go down as well as up in value
  - *This means you might get back less than you put in*
- Past performance doesn't predict or guarantee future returns
- There's no such thing as a 'risk-free' investment
  - *Each asset class has its own specific risks*
- Our advice is based on our understanding of current law, tax rates and HMRC
  - *All are subject to change in the future*

01704 571 777

info@fpc.co.uk

fpc.co.uk

Lancaster Terrace,124 Station Road, Ainsdale, Southport, PR8 3HL