COVID-19 – Impact on my Investments

Frequently Asked Questions

The uncertain economic and financial impact of the global COVID-19 outbreak has caused sharp falls in investment markets in recent weeks, leaving customers wondering about what to do. We've gathered some of the most commonly asked questions relating to the COVID-19 outbreak's impact on investment markets below.

Why has the value of my fund fallen?

The primary reason why most funds have fallen is related to declining stock markets. Stock markets have fallen primarily for the following reasons:

- The outbreak of the Corona Virus and uncertainty on how quickly it will spread across the world.
- The impact that inevitable cuts in production, manufacturing, commerce and trade will have on economies.
- It is inevitable company profits will fall and some may struggle to repay existing debt and to arrange any additional re-financing.
- Any decline in company fortunes could lead to job losses which would lead to a drop in consumer confidence and consequently to reduced spending.

How has my fund performed during this period?

While you may have some exposure within your fund to stock markets, it is likely that your money may also be invested in other assets which may not have suffered as much, and in some cases, may have risen. The Fund Centre is a useful resource which allows you to understand how your money is invested and how your funds have performed. You can access it by clicking here.

Why have oil prices fallen too?

Tensions emerged between the world's largest oil producers: Saudi Arabia and Russia. The Saudis were trying to agree joint production cuts. When the Russians did not agree, the Saudi response was to flood the market, causing oil prices to spiral lower. Oil companies' share prices plummeted in response, dragging stock markets even lower.

How have Governments reacted to the financial aspects of the crisis?

As investors attempted to come to terms with sharp losses, President Trump announced a travel ban. This move heightened investor concerns further and certain economically sensitive sectors such as airlines dropped sharply.

Governments across the world, including in Ireland, have launched massive economic stimulus programs designed to help individuals and businesses to survive the financial impact of the virus. These programs included tax cuts, local and federal spending packages, business support loans and social protection schemes. The US package has been passed into law and consists of a $2 trillion program, the equivalent of a 10% injection into the world's largest economy.

Is this 2008/09 all over again?

We do not believe this is the case for the following reasons:

- While some parts of the stock market, particularly the large tech stocks, were trading at very high valuations, overall markets were not in bubble territory. This is unlike the finance and property related bubble that had built up prior to the credit crisis of 12 years ago.
- The banking sector has been recapitalised over the last decade and is in a far better condition to withstand a major correction.
- Unemployment, interest rates and inflation were all at very low levels coming into this crisis.
- Although recession (i.e. falling economic activity) is likely as businesses and consumers cease activity, if the spread of the virus can be contained activity could rebound quite sharply.

When will we see markets stop falling and when will they recover?

This is difficult to answer as it depends on how successful the various authorities are at reducing the health and economic impacts. However, we can look at how world stock markets responded to health scares in the past including AIDS, Zika, and Ebola. In most cases, a sharp sell-off was followed by an almost "V-shaped" recovery with markets on average up 8.5% within six months. But this current pandemic could be of a bigger scale and longer duration than previous events.

Is the COVID-19 crisis different to previous events?

The number of new cases continues to rise as insufficient measures have been taken to stem the spread of the disease. While other illnesses may have had greater fatality rates, this virus has a much higher contagion rate. In addition, previous health scares occurred in pockets while COVID-19 is already evident in most countries. At present there is no known antidote to treat or vaccine to prevent this virus.

We have already seen a massive disruption to global supply chains, a feature not seen in health scares in the past. Markets tend to price in ahead of recessions, which is why we have seen such a selloff in recent weeks. The key question is whether the market reaction has fully priced in a downturn at this stage. Although it is impossible to be sure, it now looks comparable to a lot of other events of this type and we believe the bulk of the anticipated economic impact is now priced in.

What conditions are needed to support a stock market recovery?

We need to see a plateauing of new cases in Western countries. This has already happened in China and South Korea where strict "lock down" measures were taken at an early stage.

Central banks across the world have already stepped up to the mark with sharp interest rate cuts and measures to stimulate bank lending.

We have seen the introduction of some government policies to support businesses through the crisis but we need to see a concerted, coordinated global package of measures. These should include personal and business tax cuts, increased government spending, and pro-business stimulus programs.

How will markets react to the government response?

It is hard to predict the timing and shape of a recovery. The speed and extent of the sell-offs and absence of buyers suggests to us that a "V-shaped" stock market rebound is very unlikely. The level of economic disruption is likely to be so extensive that it will inevitably lead to weaker company profits. It is difficult to see how a global recession, albeit hopefully a short-lived one, can be avoided.

It is possible that markets will remain volatile for an extended period. We may see some temporary reprieves but we expect that there will be some lag between the introduction of interest rate cuts and emergency government policy and evidence of the success of these policies in economic and company performance and subsequent stock market recovery.

Should I switch to cash?

To answer this question, you need to consider whether any of the following have changed for you:

1. Has your attitude to risk changed from when you originally invested?
2. Have your investment goals changed?
3. Has your investment time horizon changed?

When you originally met your adviser, you agreed a plan based on the answers to these questions. If your answer to any of these questions has changed and, in particular, if you have a short to medium term imperative to access your money, you should meet with an advisor to reassess your goals and the priorities for your portfolio.

What should I do?

We believe that this is a time when patience is likely to be rewarded but that it may take some time for this scenario to play out. The fundamentals of long-term investing remain unchanged:

- Allocate your money to a high quality, well-diversified portfolio of assets.
- Ensure you have an adequate level of shares and property to deliver growth
- Allow time, the most important ingredient in the investment mix, to play its part.

Should I invest now/should I invest more?

Timing the market has and always will be difficult to predict. However, there are quality companies – which will thrive in the recovery – that can now be bought for a lot less than was the case before this crisis and, for investors who have the appetite for what will be a very volatile time, the rewards expected over the longer term may be higher.

As always, in times like this, getting top quality advice is a key ingredient in the investment mix. Our team of advisors are ready to provide any assistance that you need.

If you have any queries, please don't hesitate to contact your advisor.