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March 2020 Investment Market update.

We have witnessed a number of turbulent weeks in investment markets which have inevitably had a major impact on the value of our customers' holdings.

It has not just been the quantum of the drops but the speed at which they have occurred. In the past, we have seen sharp falls on the back of recessions, oil crises and wars.

This time around, the primary drivers have been:

Uncertainty around the extent at which the Coronavirus would spread. Initially, it appeared contained in China and a number of other South East Asian countries. As increased numbers of cases appeared in the West, investors became very nervous that it was becoming a global phenomenon.

Markets usually digest today's news and quickly focus attention on the future. Outside the humanitarian concerns, we started to look at what are the implications for the global economy: how can trade cope without a functioning Chinese manufacturing sector? Supply chains have become lean, how can they now cope with this level of disruption? Will global demand drop sharply? Will consumer confidence decline as individuals become less likely to buy?

In what appears to be a secondary impact, we then saw tensions emerge 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.

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.

Primary Considerations for Investors Today

The main concerns raised by our customers in recent days can be summarised below:

1. Why have the value of my funds fallen and why did it happen so quickly?
2. Is this 2008/09 all over again?
3. When will we see markets stop falling and when will they recover?
4. How long will it take to recover my losses?
5. Should I switch to cash?
6. Should I invest now/ invest more?

Let us address these questions in turn:

1 Why has the value of my funds fallen and why did is happen so quickly?

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

- The outbreak of the Coronavirus 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. China, considered as "the World's manufacturer", saw industrial production in January and February fall by the most ever fall is 13.% year on year. Retail sales fell by 20% and fixed asset investment dropped by a quarter.
- It is inevitable that we will see this news negatively impacting company profitability and balance sheets.
- Companies may struggle to repay existing debt facilities 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.

While you may have some exposure within your funds to stock markets, it is important that you understand that your money may also be allocated across other assets which may not have suffered as much in recent weeks 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.

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

This two-part question is more difficult to answer this time than in the past for a number of reasons. We can look at how World stock markets have responded to health scares in the past including AIDS, H5N1, 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.

3 The reasons why we believe that the response will be different this time are as follows:

- The net 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.
- Previous scares occurred in pockets while COVID-19 is already evident in most countries.
- 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, hence why we have seen such a selloff in recent weeks. The key question is whether the market has priced in the full extent of the downturn at this stage. It is difficult to answer this question at this point in time, but in the next section we outline what we believe is required in order to start to see a recovery come back into markets.

4 We need to assess what conditions are needed to support a stock market recovery:

- Specifically in relation to the Coronavirus, we need to see a plateauing of net new cases in Western countries. This has already begun to happen in China and 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, co-ordinated global package of measures. These should include personal and business tax cuts, increased government spending and pro-business stimulus programs.

Because of these reasons, it is much harder to predict the timing and shape of a recovery. The speed and extent of sell-offs and dearth 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 corporate earnings, thus weakening balance sheets. It is difficult to see how a global recession can be avoided in response to these events. We have moved our mind set from suggesting from a possible to a highly probable short lived recession.

To answer the question, we cannot discount the likelihood that stock markets are likely to remain volatile for an extended period of time. 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 corporate performance and subsequent stock market recovery.

5 Should I switch to cash?

To answer this question, we need to go back to the core investing pillars we referred to earlier:

1. Has your attitude to risk changed from when you originally invested?
2. Have your investment goals changed? i.e. is growth still a priority for you?
3. Has your investment horizon changed?

When you originally met your adviser, you agreed a plan based on the answers to these questions. Buyers and sellers have re-rated their views of shares to reflect an unprecedented crisis. The value of your assets has now been marked down to reflect these lower valuations for the present.

If your answer to 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.
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 real assets such as shares and property to deliver growth
- Allow time, the most important ingredient in the investment mix, to play its part.

6 Should I invest now/should I invest more?

Timing the market is something that most people fail to do successfully. There are quality companies across the world which will thrive in the recovery, and which will continue to be profitable once this crisis passes. Many of these companies can be bought today for a lot less than was the case just a short few weeks ago. In many instances these companies will continue to pay out dividends to their investors which will make up a large part of your investment return over time. For investors who have the appetite for what is likely to be very volatile period in investment markets, the rewards expected over the longer term are likely to pay off.

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.

Warning: The value of your investment can go down as well as up.
Warning: Past performance is not a reliable guide to future performance.

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

Bernard Walsh

Bernard has over 20 years' experience in life and pensions industry and has followed the ebbs and flows of the markets closely during that time. He enjoys Gaelic football and rugby when he's not reading the financial times.

He frequently writes here on Life online, using his knowledge and experience to put the greater world of investment markets into context. Nothing happens in the world of Investment and Pensions without Bernard knowing about it!