Market update on the impact of Coronavirus (Covid-19)

The markets started to turn in late February with the growing fears around the economic impact of the spread of the coronavirus. On 24th February, the FTSE 100 closed down c3.5%. But this was only the beginning.

On **6th March**, oil prices plunged 10% after a proposal by major oil producers to cut output collapsed. The intention of the cut was to support crude oil prices which have also been hit by the coronavirus outbreak, with the expectation that demand for fuel would decline. Reduced movement of people and goods and the impact on travel and holidays was expected to reduce the demand for fuel and therefore impacted pricing. Brent Crude suffered its biggest one day loss again since 2008, falling more than 9% to about $45.27 a barrel.

This had a knock on effect on the markets with an element of panic selling. The FTSE 100, which contains a number of energy and materials companies, opened on **9th March** down 3.7%.

We saw the biggest fall on the FTSE 100 on **12th March** (at the time of writing) where the market closed down 10.82%. Such large falls have not been seen since Black Monday 1987 (-12.22% on 20/10/1987) and greater than the -8.85% at the peak of the financial crisis in 2008 (10/10/2008). Trump's ban on travellers from the EU entering the US and closures of whole countries to minimise the outbreak has contributed to the falls.

Interest Rates

The US Federal Reserve reacted by cutting interest rates and the UK followed shortly after, dropping rates to 0.25% on **11th March**. The intention is to stave off the economic shock of the coronavirus outbreak.

This will particularly help borrowers on the lender's standard variable rate or those on discounted rate or tracker mortgages and may filter down in due course to fixed rates. Several UK mortgage lenders have also announced that they will offer repayment holidays to support homeowners affected by Coronavirus. Royal Bank of Scotland, Lloyds and TSB have announced this to date.

Please contact your mortgage broker if you want to review your current mortgage deal with your existing lender.

Investments

The impact of this on some clients' portfolios has been the triggering of a 10% drop notification from discretionary investment managers. This is a new requirement as a result of regulation put into place in December 2018, where if a client's discretionary managed portfolio has dropped by 10% or more since the last quarterly valuation, then affected client's must be notified.

The intention of this is not to cause panic but simply to inform. The discretionary managers have the expertise and discretion to position a portfolio to move to more defensive assets, with the aim of protecting any further falls.

Investors are reminded not to make knee-jerk reactions and to sell out of investments at this time of market turbulence. By doing so, you could realise losses in your portfolios and when markets start to rise again, you could miss out on those early gains.

It is impossible to perfectly time the market and therefore by selling out, there is a real risk of not being able to get reinvested at the right time. There have been a number of occasions in recent history where markets have suffered steep falls. These include the Dot Com bust in 2000 and the global banking crisis in 2008. In all of these previous occasions, the market recovered losses within a relatively short period of time.

Investors prepared to take a long-term view should avoid being tempted to delay making new investment decisions. Consideration should still be made to undertaking planned investment top-ups and in particular, utilising unused ISA allowances before the tax year end. It may seem counter-intuitive to be exposing new money to the markets at a time when everybody is talking about investment losses, but a well-managed diversified investment portfolio is likely to deliver returns in line with expectations over the longer-term regardless of what the markets are doing today. Experienced investors may even view this as a buying opportunity.

PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE. THE VALUE OF INVESTMENT CAN GO DOWN AS WELL AS UP AND YOU MAY NOT GET BACK THE AMOUNT YOU INVESTED.

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