Quilter Investors

Staying calm in a crisis

13 March 2020

As head of investment directors Danny Knight observes, at the end of another turbulent week for markets, it's clear that the Covid-19 pandemic continues to have far reaching and dramatic consequences.

Yesterday (Thursday 12 March) saw the worst day in markets since 1987. In the US, the S&P500 index fell some 8%, while the FTSE All-Share retreated 9% and European markets sank 10% with even gold and US treasuries ominously **selling-off.**

On the ground, Italy is already in national lockdown while schools in France and Ireland have now closed with major sporting events and public gatherings (and gathering places) across Europe, the US and Asia now being abandoned.

Much of yesterday's frenzy was triggered by President Trump's administration announcing that it had banned citizens from the EU's Schengen Area from travelling to the US for a period of 30 days (from today) in an **effort to stop the spread of what the**
US president labelled a 'foreign virus'. Markets were far from impressed.

The announcement not only took Europe's leaders completely by surprise, it also failed to be backed by any other worthwhile stimulus package indicating that the White House is still intent on playing down the seriousness of the outbreak and, as seems evident, 'weaponising' the virus for political gains later in the year.

The travel ban itself will accomplish little in terms of halting a virus that has already infected over 1,000 Americans – especially as there's no travel ban on the many thousands of US citizens intending to return home from the 26 European states now barred from visiting the US.

Later in the day, the European Central Bank (ECB) succeeded in further unnerving markets when its newly-installed president, Christine Lagarde, announced further quantitative easing (QE) but no rate cut, despite recent cuts by the US, UK, Japan, Canada and Australia among others.

Plotting a course

While we recognise that clients are looking to you, their advisers, to help them comprehend the impact of these events and asking where to turn, it's well worth remembering the famous quote from the legendary investor **Warren Buffet: "Be fearful when others** are greedy and greedy when others are fearful."

The famed economist, Mohamed El-Erian, now chief economic adviser at Allianz, the corporate parent of PIMCO, where he served as CEO and co-chief **investment officer, has said the US stock** market may drop 30% from last month's **record highs before finding a bottom.**

"This is going to be treacherous for a while," he told the media recently, "I would advise most retail investors to stay on the side-lines and not panic. There will be opportunities but they're not now," he said.

A global recession now seems an inevitability. The duration and severity of the downturn will depend on how quickly authorities can contain the **outbreak and, ultimately, how effective** the current 'lockdowns' prove to be.

This means we're effectively in 'phase 2' of what we think will be a four-stage process of decline and recovery (see below). It's important to remember that the emergency central bank intervention we've seen so far is likely **to be ineffective in terms of halting the** spread of the virus or its impact on markets. It's aimed at helping struggling companies and consumers to keep their heads above water.

Only the virus will dictate when we move from one 'phase' of the process to the **next. It's at these inflection points when** investment opportunities are likely to arise. However, these opportunities are **likely to be stock specific in the initial** stages; this means that buying an index won't be the best way to capture any recovery. Stock selection is likely to be key.

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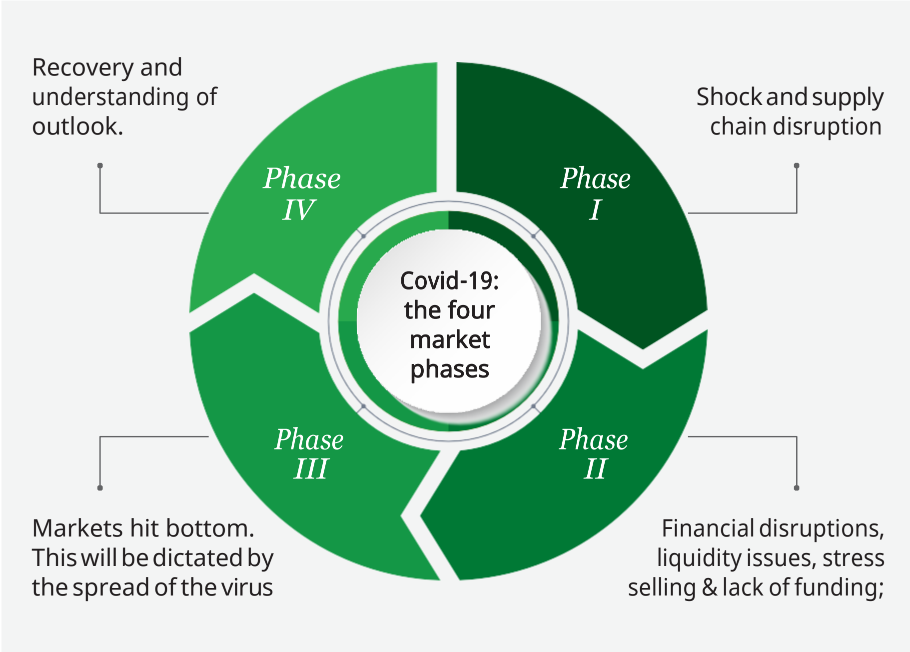
Reading between the lines

Anyone who reads the papers knows that the world's economies are going through a period of uncertainty.
It's natural at these times for some investors to get twitchy, which only serves to make the situation even less predictable.

The truth is that share prices invariably rise and fall but, for the long-term investor, this shouldn't be the primary concern. Historically, long-term performance tends to even things out and there are good reasons to see opportunity where less savvy investors are seeing only gloom.

The world of investing is overflowing with metaphors, adages and fables, so here are our top seven principles for keeping your head when all about you are losing theirs.



Our seven principles of investing

- *1. Get advice*
- *2. Make an investment plan and stick to it*
- *3. Invest as soon as possible*
- *4. Don't just invest in cash*
- *5. Diversify your investments*
- *6. Invest for the long term*
- *7. Stay invested*

One way to look at the Covid-19 outbreak is in the context of previous pandemics and the damage they wrought to markets. Below is a table created by strategists at JPMorgan which looks at the stock market reaction to outbreaks such as SARS in **2003 and swine flu in 2009.**

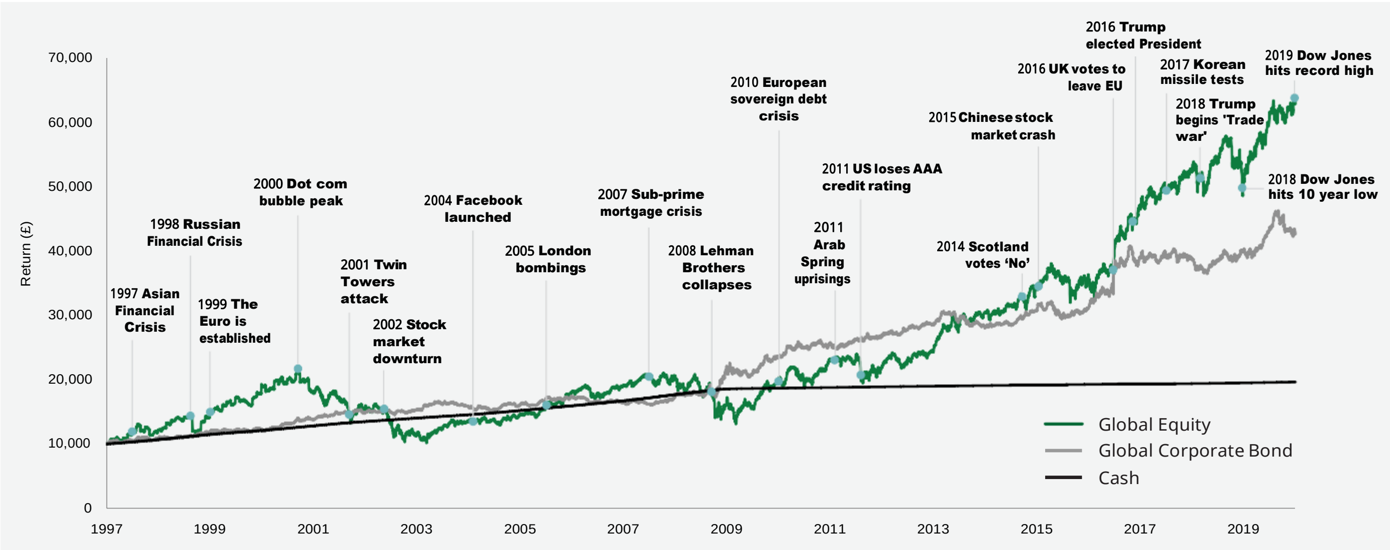
JPMorgan concludes that these episodes didn't lead to extended periods of equity selling and, in fact, became buying opportunities within weeks, with local indices rising 23% on average in the three months after the global peak in the health scare.

Market performance during previous pandemics						
				% change in local index		
	Start in global interest*	Peak in global interest*	Local index impacted	From start to peak	1m after peak	3m after peak
SARS	25 Mar 2003	25 Apr 2003	MSCI China MSCI HK	-8.6% -9.3%	14.7% 9.8%	30.9% 17%
Swine flu	24 Apr 2009	28 Apr 2009	MSCI Mexico	-4%	15.3%	25.7%
Ebola	25 Jul 2014	24 Oct 2014	MSCI Africa	-4%	6.7%	7.2%
Zika	14 Jun 2016	2 Feb 2016	MSCI Brazil	-2%	14.8%	35.4%
Average				**-4.7%**	**12.3%**	**23.1%**

Staying the course

Wise investors know that investing is a long-term commitment. Historically, investors who have been able and willing to ride out the periods of decline in the markets have seen their investments recover.

Investing with a long-term outlook and with long-term goals is the best way to reduce the impact of stock market fluctuations and see out periods of volatility. The chart below shows that short-term volatility is a characteristic of investing, but over the long term the trend is a rising one.



Past performance is not a guide to the future. The value of units may fall as well as rise.

Source: Quilter Investors as at 31 December 2019. Based on an initial investment of £10,000 over the period 31 December 1996 to 31 December 2019. Gross return in pounds sterling. Global Corporate Bonds is represented by the ICE BofAML Global Corporate index; Global equity by the MSCI World Index index; and Cash by the ICE BofAML British Pound Overnight Deposit Offered Rate. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. It is not possible to invest directly into an index.

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