architas

COVID-19
WHY YOU SHOULDN'T PANIC

The spread of Covid-19 has left many people concerned about their investments. Here we examine the economic and stock market impact of Covid-19 so far, before looking at how the market has recovered from downturns in the past, and explaining why we believe that you shouldn't panic.

The impact so far

The Covid-19 outbreak has affected all major asset classes in 2020.

GLOBAL STOCKS	GLOBAL GOVERNMENT BONDS	GLOBAL HIGH YIELD BONDS	GOLD	OIL	CASH
-17.74%	**11.11%**	**-8.71%**	**16.11%**	**-62.30%**	**0.22%**

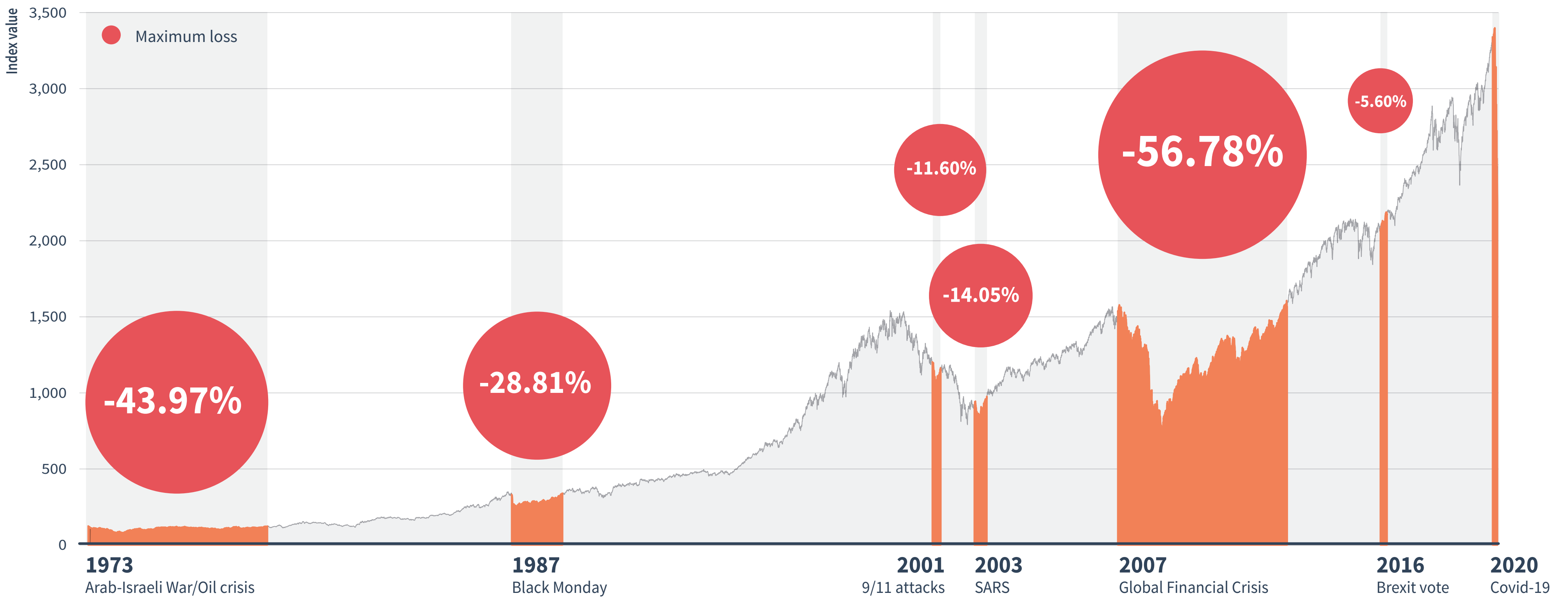
Source: Morningstar, 30 March 2020. Indices used: MSCI World All Cap GR, FTSE G7, ICE BofA Gbl HY TR, Bloomberg Sub Gold TR, Bloomberg Sub WTI Crude Oil TR, ICE LIBOR 3 Month. Returns shown for GBP investors.

Many major stock markets have suffered big falls, with losses exacerbated by huge numbers of nervous investors quickly pulling their money out of the markets. Volatility – a measure of the size of short-term stock market fluctuations – has spiked, reaching the same levels as during the global financial crisis. Perceived 'safe haven' assets such as gold and government bonds have benefited from investors' reduced risk appetite, but even they haven't avoided the market turmoil, falling in March as investors moved into cash.

We won't know the full economic impact of the virus for some time, but there have already been indicators of a slowdown. Recent business activity surveys across the world have crashed to their lowest ever levels. The Organisation for Economic Co-operation and Development has slashed its global growth forecasts. And Goldman Sachs has revised down their US company earnings forecasts multiple times. Of course, there could be further downgrades as more data becomes available and we get a clearer picture of the economic damage caused by the virus.

Stock markets tend to recover from downturns

Although the current situation is unique, and we can't look at the past as an accurate guide to the future, it may be reassuring to know that stock markets have historically recovered from downturns. This chart shows the performance of the S&P 500 since 1973 with the major downturns highlighted.



S&P 500, 26 October 1973 - 31 March 2020. Source: Morningstar.

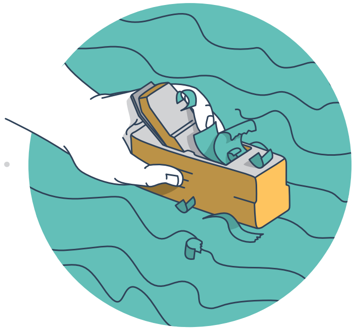
Discrete Performance (%)	01/04/2019 to 31/03/2020	01/04/2018 to 31/03/2019	01/04/2017 to 31/03/2018	01/04/2016 to 31/03/2017	01/04/2015 to 31/03/2016
S&P 500	-2.20%	17.90%	1.60%	34.70%	5.10%

Source: Morningstar, April 2020. Total return shown for the S&P 500 index in GBP. Past performance is not a guide to future performance.

Importantly the stock market recovered from each of these downturns, and over the long term we can see a return to profitability for people who stayed invested. The length of recovery varies, ranging from 80 days for the SARS outbreak to 4 years for the global financial crisis, but the long-term upwards trend has been unmistakable.

While this situation is unique – we don't yet know the extent of the global economic downturn, or how long a stock market recovery will take – there is some encouraging news. Downward-trending 'bear' markets have historically been much shorter than rising 'bull' markets. Furthermore, according to Goldman Sachs 'event-driven' bear markets (the category that Covid-19 broadly fits into) have caused an average decline of 25%, reaching their lowest point in 6 months and regaining their lost ground within a year.

We have also seen coordinated responses from global central banks and governments, ranging from interest rate cuts to promises of cheques being mailed to the general public. We expect these stimulus measures to aid the recovery, although to what extent remains to be seen.



What changes have we made?

At Architas we have had a cautious outlook on the markets for some time, and have made a number of changes with the aim of limiting client losses. At the end of 2019 we increased our exposure to government bonds to reduce risk. More recently we reduced our exposure to riskier stocks (equities) and high yield bonds, and moved the proceeds into cash.

In certain funds, within our equity holdings we have increased exposure to 'minimum volatility' funds. These funds hold the least volatile companies within a certain market. We have also moved assets from funds that look for undervalued companies to those that focus on high-growth companies, as we expect these to perform better in the current environment.

It's important to stay calm

In the current environment we believe it's important to stay calm. Panicking and selling your entire portfolio in a downturn is one way to guarantee losses. It could also mean missing out on some of the strong days for the stock market that have historically occurred during periods of high volatility.

Similarly, trying to time the market or predict the bottom of the downfall can mean locking in losses and missing out on gains. Short-term market movements are notoriously difficult to forecast, and we still don't know the full extent of the damage caused by Covid-19.

If you are worried or are unsure whether you have the ability to remain invested for the long term, please seek financial advice on your individual situation.

Remain diversified

It's also important to stay diversified. Over the long term, asset classes don't tend to move in the same direction at the same time. This means that a portfolio diversified across a number of different asset classes has the potential to protect investors from the full extent of losses, and potentially provide smoother, less volatile investment growth.

With volatility and uncertainty likely to persist over the coming months, we continue to believe that the best way to navigate the markets is to hold a diversified portfolio of high-quality investments.