Swallow Financial Planning
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INVESTMENT NEWS

Covid Crisis (3) Latest Views

We are sending this update out in both paper and electronic form to make sure all our clients know we are on top of the current investment position.

Where Are We Now?

All the markets have fallen some more than others. From the 19th February to the 20th March markets moved as follows:

All World Equities	(22.24%)
Developed Market Equities	(33.52%)
Emerging Markets	(22.63%)
Global Value	(36.16%)
Global Min Volatility	(21.88%)
UK FTSE 100	(31.95%)
UK FTSE 250	(41.09%)
UK FTSE All Share	(33.97%)
UK Higher Yield	(39.93%)
UK Smaller cos	(39.35%)
UK Value	(40.11%)
UK REITS	(37.16%)
International REITS	(33.88%)
Managed Bonds	(10.89%)
Short Dated Bonds	(.66%)
Cash	-
Gold	2.21%

Bricks and Mortar funds have been suspended so data isn't available. The above fund are all passive tracker results within the areas described.

We are surprised at the drop in Value stock, as stated previously we would favour the stronger companies in any recovery from the current low points. Value stock are also more likely to maintain dividends than stock without big reserves.

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Effects of Government Action

The massive unprecedented government cash injections to the economy are hugely inflationary. We are not quite at "Helicopter Drop" economics but some of the measures already suggested are very much along these lines. (https://www.investopedia.com/terms/h/helicopter-drop.asp)

The current cash injections are eye watering. The US stands at 1.5 $trillion, Euro bank £750 EUR Billion and the UK are rapidly approach £500 billion on it's own.

Clearly these actions are designed to stave off a deeper recession than would otherwise be the case. Remember however, that all this borrowing will one day have to be repaid…

Asset Allocation

The fact assets have fallen in paper value doesn't preclude reorganisation to get the most out of any recovery.

Now is the time for asset backed investments. Markets tend to pendulum and with that, overreact both in terms of upside and downside swings.

We feel Gold still has a part to play even if its significant rises are over.

We remain of the view that cash is better than fixed interest when we need to reduce volatility.

We prefer equities right now; the companies which will recover quickest from the lost sales and productivity will be those with the biggest pockets, Value is therefore very much in favour from our perspective.

Government stimulus will favour funds that invest in infrastructure companies. Whilst we have used property as a less correlated investment to the equity market, we are reducing the exposure slightly in favour of equities ongoing.

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Should You Keep Taking Income From Your Funds?

If you don't need income from your funds stop taking it. For many clients we have set aside a cash pool to pay income during a crisis such as this and in many cases the cash is 1 to 2 years income needs. We expect the current drop in values to have largely recovered during the next 1 to 2 years.

What About Capital Lump Sums?

Now is a ***really bad time*** to take lump sums out of invested assets. Defer this if at all possible.

Is Now A Time To Buy?

Now is probably the best time to buy equities that we have seen for 10+ years. We do not of course know whether tomorrow or next week might be an even better time!

Whilst we believe now is a great time to invest, we would recommend staging your cash onto the market over say the next 3 to 9 months depending upon how cautious you are.

Structured products may well be worth considering, we propose to explain more about structured products in the next week or two.

Summary

Vanguard have kindly supplied us with a chart of every Bull and Bear market since 1900. It is always beneficial to be reminded that we have been here before and so far, we have always recovered. You can view the chart at:
https://www.swallow-financial.co.uk/wp-content/uploads/Bear-and-bull-chart_UK_EN_Pro.pdf

Whilst gains may be in short supply over the coming months and income will also fall with the effects of Coronavirus, if you want to maximise the long term returns from your savings then you have little option but to "hold on tight" and (try to) enjoy the ride!