TROUBLE IN THE MARKETS?

AN OVERVIEW OF THE IMPACT OF CORONAVIRUS ON THE UK STOCK MARKET.

The Coronavirus pandemic has undoubtedly created a lot of anxiety in the markets, with the threat of the next global economic slowdown looming on the horizon. In financial terms, we are now officially in a bear market for shares; this is where investment falls at least 20% or more from its 52-week high.

The news will inevitably report the doom and gloom in times of crisis when markets are declining, but a recovery in the markets often goes under the radar, the stories just do not sell as well.

I understand that people get anxious about their pensions and investments in times like this. Nobody likes volatility, and nobody wants to lose money, but you must not let your emotions get the best of you and make any knee jerk decisions with your investments.

What I can tell you from my experience is market history can give us some reassurance. If we break the history of bear markets down, we can conclude that markets will recover.

If we examine the history of past events, it may give us some insight into what is to come and give us some inclination to how long it will last.

How long do they last, and by how much do they fall?

The longest bear market over the last 100 years lasted 2 years, 8 months following the great depression of 1929. The markets fell 45%, the second-largest fall since the 1900s. Since then, the UK stock market has suffered a further 10 bear markets.

The UK stock market suffered its worst decline between 1972-75 when it lost 67% in value. This was caused by a combination of a dramatic rise in oil prices, the miners' strike, and the downfall of the Heath Government.

Further large declines followed in 2000 with the collapse of the .com bubble. Although not as severe as back in the '70s, the UK market still declined by 43% and lasted 2 years and 6 months. Excluding the current Coronavirus pandemic, the most significant market decline in recent memory was back in 2007 with the banking crisis, this led to a 41% decline in value but lasted only 15 months.

These declines are rare, and if we look at the average bear market, its average accumulative loss is 36%, and the average length is 2 years, 4 months. Although we don't know how long the current crisis will last, we can take some comfort in the fact the UK stock market only lost 30% in value, which is less than the average.

Will the markets bounce back?

If history repeats itself, then yes, it will bounce back, and when markets re-enter the bull market, the growth is sustained for significantly longer. It has, on average, taken 648 days for the 10 previous bear markets to recover to its prior highs, which is less than 2 years. This includes anomalies such as the tech bubble crash between 2000-2003, which took 1,393 days to recover and the financial crisis of 2007/2008, which took 1,529 days to recover. As mentioned before, these events are rare, especially when we compare them to the average and are not an indication of how long the current crisis will take to recover.

If we look at the history of how long bull markets last, over the same period, we can see that the average bull market lasts 6.3 years, with an average accumulative return of 237%. If we compare this to the average bear market accumulative loss of 36%, it's a dramatic difference. Before this current crisis, the bear market had lasted 10 years in length and accumulated close to a 200% return.

What we can conclude from this is bear markets are short-lived in comparison to the bull market, so it's important to remember that in unprecedented times it is best to stay invested, its time in the market, and not timing the market.

I am unsure how long the current crisis will be haunting the markets for, but what can be rightly argued here is the Coronavirus pandemic is different from the last crisis. We do not have a failure of any of the financial pillars that led to such events as the financial crisis, the banks are more robust, and the government financial packages could help alleviate pressures on businesses. Instead, we have panic surrounding the spread of COVID-19. Correcting investors' perspective and response to this illness will likely prove considerably easier than trying to prop up financial markets, which leads me to believe this downturn will be on the shorter side.

What should you do now?

The best response to this crisis is not to panic; we have already seen a recovery in the market since the trough back towards the end of March. The UK stock market (FTSE 100) has recovered slightly from its lowest point of the crisis, 4,898.79 points, now standing at 5763.06 at the close of play on 1st May 2020.

In times like these, I always speak to my clients to reassure them and remind them of the reasons why they invested in the first place. I cannot predict markets; nobody can, so it is better to stay in the markets rather than trying to time them.

There are two things I would recommend to people with pensions and investments is if you are withdrawing money from your pension and investments for an income, it is always best to have 3 years' worth of income in cash in your portfolio. I don't claim this to be full-proof, but it overcompensates for the average bear market length of 2 years, 4 months.

Without sounding like a stuck record, the next important step is to diversify, diversify, diversify. If you spread your investments over a variety of asset classes (bonds, property, shares) over different geographic regions, you are likely to reduce the amount your investments decline as well as reducing the time it takes for them to recover.

In essence, this isn't the first time we have had a crisis in the markets like this, and if history is anything to go by, then this won't be last. But what is certain is it will recover.

Please get in contact if you are concerned at all with your pensions and investments or if your confused with anything and just need some guidance

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