Coronavirus investor Q&A – 25 March 2020

As your investment manager, we want to provide you with up-to-date information about your investments. With so many changes happening – both to us as a society and to the stock markets on a daily basis – we can all suffer from information overload. The purpose of this Q&A is to give you some context on what is happening and to share our thoughts on the outlook for your investment portfolio and the global economy.

I received a letter about my investments falling in value. What should my response be?

In 2018, the Financial Conduct Authority (FCA) introduced regulations that required investment managers to report falls of 10% or more in the value of investment portfolios in a 'reporting period' (three months) to investors as soon as they occur. The rules are intended to protect investors' interests so that they are told 'bad news' about their portfolios as well as the 'good news'.

The FCA requires us to send an additional notification each time the value of the portfolio falls a further 10%. Each notification must be sent within 24 hours of the fall taking place. Tatton's quarterly reporting periods align with the calendar year. This means we begin our first reporting period on 1 January each year, the second quarter on 1 April, and so on.

We manage your investments through investment platforms. Because they hold your investments, they may also write to you under the same rules. However, investment platforms can use reporting periods based on the specific date you first invested, which means that they may notify you of a fall before or after we do.

All of these notifications are for information only and there is no need or requirement for you to do anything. If you are concerned, please talk to your Financial Adviser. They receive the same notifications about your investment from us, so they can discuss the best course of action with you.

Why have investment markets fallen so far, so quickly?

The financial impact of COVID-19 has spread across the world as fast as the virus, showing just how connected we all are in both human and economic terms. Severe limitations on movement, as well as concerns about providing adequate healthcare, have created severe disruption to daily life and the global economy.

After COVID-19 was recognised as a global pandemic and the impact on global trade became clear, investment markets sold off heavily. The fall in investment markets was also worsened by a dramatic fall in the oil price when Saudi Arabia and Russia disagreed about oil production volumes, adding more pressure to an already nervous environment.

What is happening right now in investment markets?

The suspension of all but essential activities across Europe (and increasingly also the United States) has caused investment analysts to change their outlook on the global economy from positive to extremely negative. This has created panic in investment markets and forced governments to respond to try and restore confidence. The measures introduced by central banks and governments are extremely large, coordinated and designed to inject money into economies and to support business continuity. Even so, these messages have at times failed to bring back confidence within investment markets. As a result, global stock markets have fallen some 35% since their February highs. Even traditional 'safe haven' assets, like government bonds and gold, have fallen in value.

Will stock markets keep falling?

It is impossible to predict the future. Stock markets remain very volatile and there is the potential for further swings over the coming weeks and months. If the actions of central banks and governments bring stability to their economies, this should be reflected in investment markets, but we do not know when this will happen. The information available to us tells us that the number of people infected by the virus will decline and the pandemic will end, but we don't know when.

Are we entering a global recession?

Yes, a recession (defined as two consecutive quarters of negative growth) is inevitable. But it's important to consider the distinctions between previous global recessions and what we're currently experiencing.

For example, the Global Financial Crisis of 2008 was sparked by failures in the banking sector that led to a general loss of trust in the entire global financial system. This created an internal shock to economies and investment markets. Today, the shock to investment markets is an external health crisis, rather than internal disfunction. When the 'shock' of the COVID-19 pandemic diminishes, the economic recovery will not be linked to the strength of the banking sector, but on the effectiveness of the combined US$3 trillion that governments are allocating to support their economies during the enforced shutdown.

How has this affected Tatton portfolios?

Tatton portfolios are diversified across different types of investments (assets) and geographic regions. However, as you would expect, portfolios with a greater allocation towards equities have been hardest hit during this crisis. Our Active and Global Equity portfolios, both of which hold equities in greater amounts, have fallen more than 20%.

Recent stock market falls have been so prominent that even our most Cautious portfolios have fallen more than 10%. This means that, since the beginning of 2020, all positive gains made since the beginning of 2019 have been wiped away. However, over the medium and longer term, our lower-risk strategies have not yet suffered losses in absolute terms.

From the minimum investment time horizon perspective of five years, all Tatton risk profiles and their aligned portfolio strategies remain robustly positive, with returns of between 10 and 15%.

Should I be thinking about selling my investments?

In times of heightened – even unprecedented – levels of uncertainty, everybody feels the collective instinct to 'do something' to try to take control of events. Panic buying, against best advice from the government and supermarkets, is testimony to this very human notion. But whether we're talking about toilet paper or investments, acting rashly can have poor long-term consequences.

As investment managers, we face the same pressure to sell during times of extreme volatility. However, it's our job to resist such pressure and to persist with our long-held investment beliefs. For example, we know that holding well-diversified portfolios helps to cushion the impact of market falls, especially when compared against holding equities directly. We also know that it's important to have our portfolios positioned in ways that will allow us to act swiftly and decisively when good buying opportunities present themselves.

Is now the right time to buy?

Normally, a sharp drop of 30% in the valuation of stock markets would present significant buying opportunities. However, this is not a normal time. It's worth remembering that we are still in the early stages of this downturn. It is quite likely that we will – even if just temporarily – see further lows over the coming weeks. With markets acting unpredictably and in disorderly fashion, we favour a cautious approach at present. As responsible guardians of your money, we still take the view that 'timing the market' is a high-risk gamble and that 'time in the market' is the best way to build long-term investment returns.

What is Tatton doing to preserve the value of my investments?

Every day, we review the relative weightings across portfolios and consider the latest market developments to continuously assess whether our positioning is appropriate.

With such unpredictability in markets, and given our existing allocations to cash, bonds and equities, we will not currently be making any portfolio adjustments. We believe our current positioning is appropriate for the current environment. We want to keep our portfolios invested at levels that will allow them to participate and benefit fully when investor sentiment turns.

While we continue to monitor our portfolios as a whole, we are constantly reviewing their individual component parts. It's our job to ensure that the underlying funds that make up our portfolios perform as anticipated through the prevailing market environment. We expect our active managers to be taking advantage of the recent volatility in markets, but we want to ensure they remain committed to the philosophies for which we selected them in the first place.

How can I keep up to date on my investments?

We will keep sending out portfolio statements as usual and will continue to send updates on market developments. All our market updates are available to view on our website. Your Financial Adviser and your investment platform will be able to provide you with daily valuations should you need them. If you have any questions at all about your investment, talk to your Financial Adviser first. They are familiar with your personal circumstances and will be best placed to discuss your investment with you.