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# COVID-19
# WHY YOU SHOULDN'T PANIC

The spread of Covid-19 has left many people concerned about their investments. Here we look at the economic and stock market impact of Covid-19 so far, and explain why history suggests that you shouldn't panic.

## The impact so far

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

| GLOBAL EQUITIES | GLOBAL GOVERNMENT BONDS | GLOBAL HIGH YIELD BONDS | GOLD | OIL | CASH |
|---|---|---|---|---|---|
| **-23.20%** | **3.60%** | **-14.90%** | **8.28%** | **-64.80%** | **0.22%** |

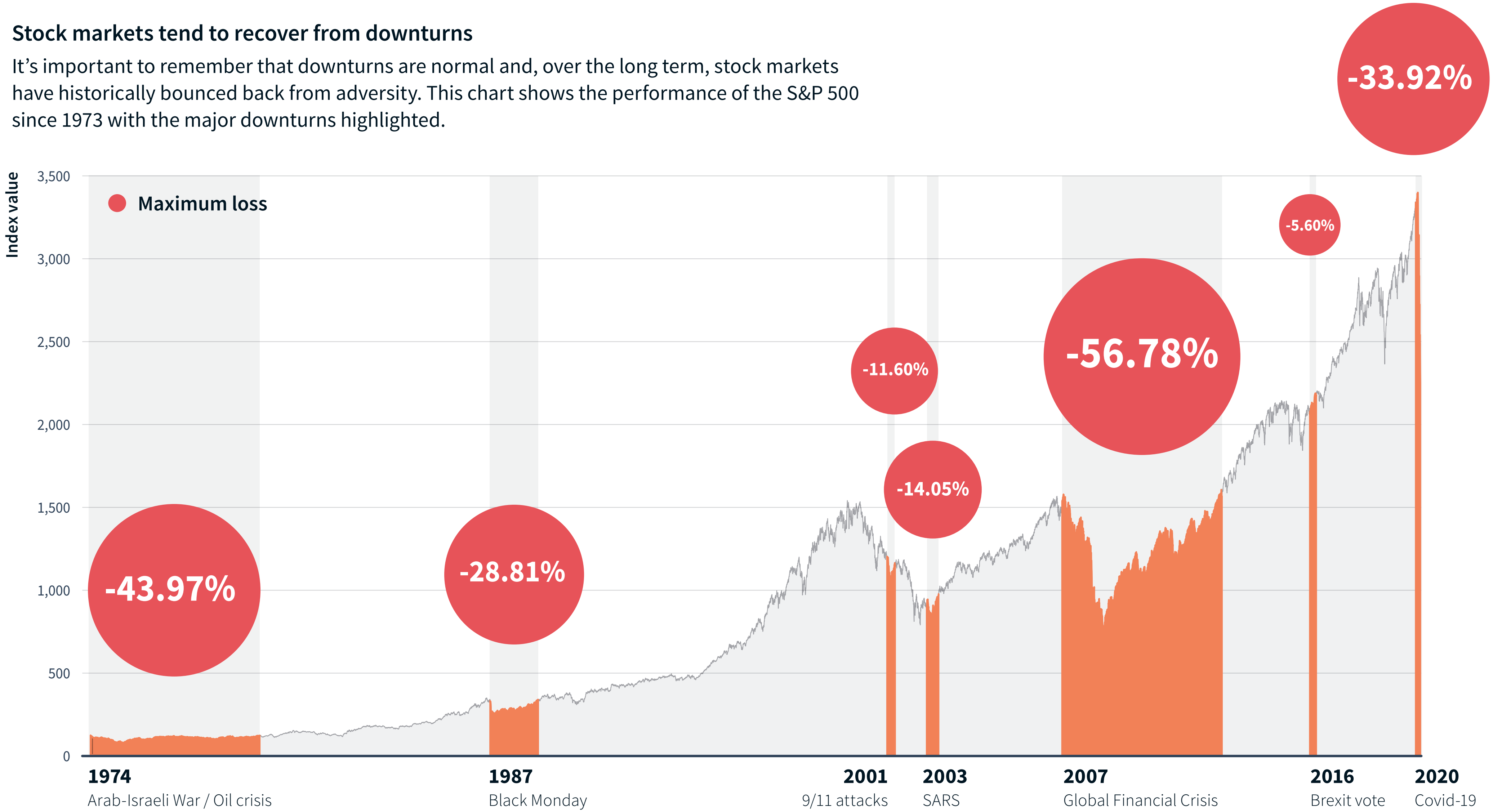
*Source: Morningstar, 30 March 2020. Indices used: MSCI World All Cap GR USD, FTSE G7 USD, ICE BofA Gbl HY TR USD, Bloomberg Sub Gold TR USD, Bloomberg Sub WTI Crude Oil TR USD, ICE LIBOR 3 Month GBP.*

Many major stock markets have suffered corrections, with losses exacerbated by huge numbers of nervous investors quickly pulling their money out of the markets. Volatility 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 took their profits and 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

It's important to remember that downturns are normal and, over the long term, stock markets have historically bounced back from adversity. This chart shows the performance of the S&P 500 since 1973 with the major downturns highlighted.

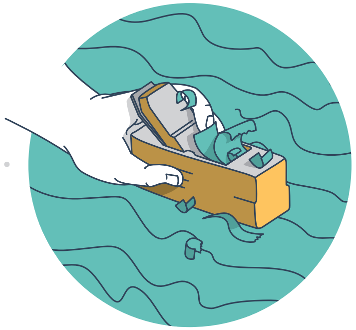



*S&P 500, 26 October 1973 - 31 March 2020. Source: Morningstar.*

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 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 to limit 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 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 an 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.

## 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. A diversified portfolio can therefore protect investors from losses while providing a smoother ride. And 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.