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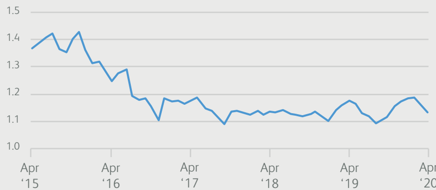
wealth management

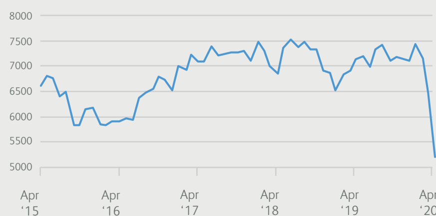
financial
Newsletter
Edition 34 – Spring 2020

What is the British Pound worth vs. Euro?



What is the British Pound worth vs. Dollar?

FTSE 100 Chart



KEY FACTS & FIGURES – The UK Economy		
BoE Base rate	0.1%	May 2020
Unemployment	4%	Dec-Feb 2020
Inflation (CPI)	1.5%	March 2020

Agenda

2plan: A Spring Affair

FundsNetwork: Do your passwords pass the password test?

2plan: Look Beyond the Price of your Protection Policy

Zurich: The power of children's critical illness insurance

Fulcrum: Don't write off absolute return for diversification

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Prudential: Better together - Tips for couples planning for their retirement

Architas: Covid-19 - What does it mean for my investments

Architas: Markets often bounce back strongly after viral outbreaks. Will they do so with coronavirus?

Fidelity: Taking on the twists and turns of volatility

Columbia Threadneedle: Why investors should try not to panic

Base rate

In March, the Bank of England Base Rate was cut from 0.75% to 0.1%, the lowest it has ever been in UK history.

UK economic outlook

- UK gross domestic product (GDP) in volume terms was flat in Quarter 4 (Oct to Dec) 2019, unrevised from the first quarterly estimate.
- When compared with the same quarter a year ago, UK GDP increased by 1.1% to Quarter 4 2019, unrevised from the first quarterly estimate.
- The services sector provided a positive contribution to growth in the output approach to GDP in Quarter 4 2019, however, this was offset by a negative contribution from the production sector.
- Government consumption and trade added to growth in the expenditure approach to GDP in Quarter 4 2019, while private consumption and gross capital formation subtracted from growth.

Inflation

- The UK unemployment rate for the three months to February 2020 was estimated at 4.0%, largely unchanged compared with a year earlier and 0.1 percentage point higher than the previous quarter.
- There were an estimated 795,000 vacancies in the UK in January to March 2020; this is 52,000 fewer than a year earlier and 6,000 fewer than the previous quarter.

Unemployment

- The UK employment rate in the three months to February 2020 was estimated at a record high of 76.6%, 0.4 percentage points higher than a year earlier and 0.2 percentage points up on the previous quarter.
- The UK unemployment rate for the three months to February 2020 was estimated at 4.0%, largely unchanged compared with a year earlier and 0.1 percentage point higher than the previous quarter.
- In real terms (after adjusting for inflation), annual growth is estimated to be 1.2% in total pay and 1.3% in regular pay in the three months to February 2020, both down from a recent peak of 2.0% in the three months to June 2019.
- There were an estimated 795,000 vacancies in the UK in January to March 2020; this is 52,000 fewer than a year earlier and 6,000 fewer than the previous quarter.

Nothing is so beautiful as Spring – when weeds, in wheels, shoot long and lovely and lush;

— excerpt from Spring, Gerard Manley Hopkins

A Spring Affair

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– excerpt from Spring, Gerard Manley Hopkins

The Spring is a time for the traditional Spring Clean of one's home – dusting the tops of shelves seldom reached, clearing out forsaken attics and decluttering overflowing wardrobes replete with outfits that no longer fit or suit. We often neglect other areas of our lives, including our finances. It used to be socially unacceptable to discuss one's capital affairs but in the modern age, it's encouraged and there are umpteen online forums and resources to aid the general public in better money management. Here are five ways to assist you now.

Switch Providers

One of the most apparent ways to save is to switch your energy provider. The average household could save over £350 a year[1] just by changing who supplies their energy. Enter your details into one of the many comparison websites available online and discover if signing up to a new provider could work in your favour.

Rid yourself of wasteful subscriptions

According to research conducted by NatWest, the typical British adult wastes £39 a month[2] on unused subscriptions. That amounts to a tidy annual sum of £468 that could be better utilised in a savings account or put toward an upcoming jaunt abroad. The most common services include gym memberships, video streaming, premium delivery and old insurance policies. Some of these monthly fees occur when the subscriber isn't conscious of a lapsed free trial. Take care to check your bank statements and cancel direct debits toward unwanted subscriptions.

Uncover lost money

There is estimated to be £850 million in old bank accounts, pensions, life assurance and investments[3]. After fifteen years in a dormant account, the government can claim the money and have set up a *Big Society Fund* for this purpose, using the claimed funds to support social and community causes. Whilst this is a worthy endeavour, I am certain that Joe Public would prefer the money be in their current account, ISA or back pocket rather than in government hands. *mylostaccount.org.uk* is a free service which will support you in locating dormant accounts and rightfully retrieving any forgotten funds.

Strengthen your savings

Whilst it is imperative to employ good savings practice year-round, Spring is often the best time to take advantage of new products that many banks showcase at the start of the new tax year. There are some choice deals and introductory offers to be had simply by opening a new savings account, transferring an ISA or switching a current account. Speak to your 2plan adviser for advice on what could work best for you.

Cash, not card

The well-known idiom cash is king may refer to investments rather than palpable money but I think it can be applied to the ever increasing use of contactless debit and credit cards that we experience presently. When making a transaction without the physical action of handing over the money to the vendor, we lose our connection with the reality of the sale and its impact on our bank balance. It is all too easy to rack up a substantial amount through a series of modest purchases – lunch from a local deli, a train ticket, a newspaper to peruse on the journey... all paid for with plastic. To reduce your spending on cards, and aid with budgeting, set yourself a weekly cash limit and ensure that you have the money available on your person at times when you may be tempted to buy. Every time you choose to buy something, keep the receipt – it's marvellous to track your purchases and compare the figures to past spending when you relied solely on card payments. You should find that you spend a lot less, and can save much more.

[1] *energyscanner.com/how-much-can-i-save-by-switching-my-energy-supply/*

[2] *moneyexpert.com/news/brits-waste-average-39-month-unused-subscriptions/*

[3] *moneysavingexpert.com/reclaim/reclaim-lost-assets-free/*

Author: Chloe Binns
2plan

Do your passwords pass the password test?

In this modern world, the internet brings us lots and lots of advantages. Unfortunately, the downside is that cyber crime is becoming an increasingly serious issue. Safeguarding the computers and devices you use, such as your PCs, laptops, tablets and smartphones, is therefore vital – as is the security of all your online accounts. Banking and other financial accounts, such as those containing your savings and investments, can be targeted by criminals for obvious reasons. Many other accounts may contain your debit or credit card details, for instance, while others will typically hold personal information that could be valuable to a fraudster.

Passwords are the obvious way to prevent unauthorised access. However, they need to be strong, robust and unique to be effective. However, only 55% of individuals surveyed in the National Cyber Security Centre UK Cyber Survey admitted always using a strong password for their main email account. This is despite email passwords being particularly important, given these accounts commonly have a role in setting up and changing security details on other personal accounts.

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Author: Lesley Davidson, Associate Director, Strategic Accounts FundsNetwork

To help ensure you stay safe and to encourage password best practice, I've highlighted some tips below, largely based on advice from the National Cyber Security Centre.

1. Switch on password protection

This can be as simple as setting up a screen-lock password or PIN. Depending on your device, it may be possible to enable strong biometric controls. This includes fingerprint or facial recognition, making it harder for criminals to gain access to your information.

2. Change all default passwords

A very common mistake is not changing the default passwords that manufacturers issue with their smartphones, laptops, and other devices. It's recommended that you change all default passwords as soon as possible following your purchase.

3. Avoid using predictable passwords

Using easy-to-guess passwords can be tantamount to opening the door to criminals. Indeed, breach analysis found that 23.2 million victim accounts worldwide used '123456' as the password. Other frequently-used passwords found in breaches included 'liverpool', 'chelsea', 'iloveyou' and everyday first names such as 'ashley' and 'michael' (with or without numbers added to the end)[1].

Passwords need to be easy to remember but, on the other hand, they should be hard for somebody else to guess. A good rule to follow is to make sure that somebody who knows you well couldn't guess your password in 20 attempts. Each password should also be unique – this helps to ensure any hack of one account doesn't compromise the security of others.

4. Don't use personal information

As well as avoiding first names, you should also steer clear of dates of birth, pet names and your company's name. Indeed, any information that can be found on social media sites or online shouldn't feature as part of a password or as answers to the security questions needed to reset a password. They should be complex, obscure and difficult to guess.

5. Use passphrases

Three randomly selected words in combination are stronger together as a 'passphrase' than typical passwords. Passphrases are more secure, simple to make and easy to remember. Predictable phrases, such as 'onetwothree', should be avoided though.

6. Enable multi-factor authentication for important accounts

Many online accounts now use 'multi-factor authentication' as part of the log-in process. This requires two or multiple different methods to 'prove' your identity before you can use a service. This is generally a password plus one other method, such as a code that's sent to your smartphone that must be entered in addition to the password. Where the online account gives you the option, you should enable this feature in order to boost security.

7. Get help to cope with password overload

These days, most people tend to have around 200 online accounts and so remembering security details is a challenge. Using a password manager app is an option – these are tools that can create and store passwords which can be accessed through a 'master' password. As the master password is protecting all of the passwords stored in the repository, you'll need to make sure this is particularly strong.

I hope this has helped with useful guidance to help protect you from cyber crime. To find out more about staying safe online, Fidelity provide lots of information on our *website* about the importance of online security and how we keep your personal details safe. Further advice is also available from organisations such as *The National Cyber Security Centre* and *Get Safe Online.*

[1] *National Cyber Security Centre/Troy Hunt.*

Look beyond the price of your protection policy

Most of us celebrate the start of life and pay tribute to the end of life, but are we placing enough importance on everything in between?

If we're lucky we'll enjoy certain life events like finding a lifelong partner, marriage / civil partnership, having children, enjoying a career and, ultimately, retiring. But how many of us take out financial protection in the event our plans go awry?

Clearly life isn't always plain sailing and we will face obstacles and challenges to overcome. When these challenges are more serious, for instance if accident, illness or death strike, protection insurance can help provide a safety net.

1. It should form the foundation of most people's financial plan.
2. Cover should be reviewed regularly to make sure it continues to meet your needs.

The second principle is particularly important when you're at a particular 'life' stage. Whether that's buying a house, getting married, starting a family, setting up in business, or all the above, protection insurance will help to protect your loved ones and your financial responsibilities.

But it's important to look beyond the headlines when taking out protection as many providers will offer added-value benefits beyond an initial pay out, that can really help you adapt and cope to potentially life-changing circumstances.

These additional benefits could be anything from access to expert medical opinion, rehabilitation to get you back to work as quickly as possible, bereavement counselling, or even global treatment.

When using comparison sites and direct insurers, care should be taken to make sure their 'off-the-peg' solutions meet your specific needs. Using our expert product knowledge, we can help find the right solution with the right value-added benefits for you.

For more information or to discuss a protection shortfall, please get in touch.

Author: 2plan

The power of children's critical illness insurance

Adding children to your life and critical illness policy has never been simpler – and the benefits can be huge…

What might life be like if you were diagnosed with a serious illness? Things could change quite suddenly.

You'd get your family together and tell them what was going on. Before long, you'd start spending time in hospital for treatment. You may also need to take some time off.

It's hard to know what the financial impact of all this would be for you and the people who depend on you.

It's also extremely difficult to imagine your child falling seriously ill.

Critical illness cover provides a financial cushion should you suffer a serious illness, such as cancer, heart attack or stroke – and with many policies it is possible to add children to your cover.

Children's benefit

For a while now, it has been possible to add children to an adult's life and critical illness policy, for an additional premium.

Though children's benefit is not new, adding it to an adult policy, from as young as birth, has never been simpler.

Children's critical illness hasn't always been considered a key benefit of critical illness policies, but it is proving to be extremely important to some families. In 2018 alone, Zurich paid out more than £600,000 in claims for children, with cancer being the most common cause.

With Zurich, adding children's benefit to a critical illness policy – whether they're natural, step or adopted children – means they will be covered for up to £25,000 for the same conditions the adult is covered for, from birth until their 22nd birthday.

On an 'enhanced' policy – called Zurich Select – cover extends to further conditions and even to a handful of child-specific conditions, such as cerebral palsy and muscular dystrophy.

And if you have enhanced children's benefit, Zurich will also include a benefit uplift. This doubles the amount Zurich pays out, up to a maximum of £50,000, if your child is diagnosed with cancer (excluding less advanced cases) or if they require overseas treatment for any of the covered conditions.

Finally, from the moment they are 16, your child can also take out a policy of their own – for the same sum assured – free of underwriting.

Children's CI: A case study

Mr and Mrs Dunn each had life and critical illness plans, both with a sum assured of £296k.

The couple had two children and were expecting a third so, after a conversation with their adviser, it was an easy decision for them to add children's cover to each of their policies, particularly as both Mr and Mrs Dunn had a family history of serious illness.

When Sam was born, the Dunns were thrilled. Everything seemed fine for the first few weeks, but then Sam developed bronchiolitis, a fairly common respiratory tract infection.

Though things seemed to clear up, Sam later began to have difficulty breathing, and he was taken to A&E. A chest x-ray showed a collapsed lung and enlarged heart, and Sam ultimately underwent surgery.

Mr Dunn notified his and his wife's insurer of what had happened to Sam, and made a claim under their life and critical illness policies, for children's critical illness.

Their insurer confirmed Sam's condition and subsequent treatment met its heart surgery definition and agreed to pay the claim under both policies.

A little over a month later, with Sam having completed his surgery and back at home recovering, the Dunns received a total payout of £50,000.

This is a fictional case study.

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Author: Scott Sinclair, Content Strategy Manager
Zurich

Don’t write off absolute return for diversification

Until the sharp movements in equities and bonds from the middle of February 2020, investors had enjoyed benign returns from traditional assets such as equities and bonds. Now many are asking just how long this can last.

The future direction for these asset classes is far from certain, and some may find it worth considering protecting capital now to consolidate the gains made.

The roots of the absolute return fund sector can be traced back to the need to differentiate from traditional markets in order to add an element of defensive protection to an investment portfolio.

It resulted in a wide-ranging sector, with the Investment Association’s Targeted Absolute Return sector numbering more than 118 funds. Yet in a decade of benign market conditions, and with a range of different approaches to managing an absolute return portfolio taken, sector performance on the whole has often been patchy.

The chart below compares the 12-month sensitivity of the Fulcrum Diversified Absolute Return Fund with Global Equities (MSCI World TR GBP Hedged), showing a low to negative sensitivity on average.

The performance of some in the sector has been disappointing, but it is important not to tar all with the same brush. Absolute return funds play a key role in diversifying a portfolio, so, when measuring what an absolute return can do for you it is essential to be aware of several characteristics.

Firstly, we believe that investors should consider the length of the track record of the fund, as well as judging how it deals with volatile market conditions.

Ideally this would mean a fund with a record dating back to the 2008/09 Global Financial Crisis, which offered a real test of how a manager could perform during a very volatile environment. It was, until very recently as we have seen with the outbreak of Covid-19, the last key data point to examine how a strategy might behave when markets move sharply. This also means looking for some continuity in the team, showcasing experience at dealing with difficult market conditions.

Investors should also look for a fund with a portfolio displaying a low correlation to equity and bond markets. This can be done by adopting ‘directional’ strategies – in which the manager varies bond and equity exposure dependent on the market environment – and ‘relative value’ strategies. The latter is a strategy where the manager adopts a range of themes, and trades by putting one asset class against another. For example one theme could be that US equities are going to perform better than European equities, and so the portfolio will position itself accordingly. It is the difference between the performance of the two assets, rather than the absolute numbers, which is important in this case. Both strategies help differentiate the portfolio from wider markets, hopefully enough to avoid sharp rises and falls. We believe a combination of the two will prove to offer a more robust performance over time.

12-month rolling beta to global equities

The current environment has been incredibly interesting from an investment perspective. At Fulcrum, we are currently focusing our efforts on relative value. This has meant that we are increasing exposure to the US bond market rather than others because the high yields in the asset class offer us greater protection. Similarly, one of the big themes in stock markets is seeking companies that are benefiting from tech disruption, so we have prioritised stocks benefiting from disruption, such as the move to Cloud-based software, and have negative views on the stocks that are missing out on this growing trend.

It is vital that investors look to the long-term when it comes to deciding the make-up of a portfolio. To maintain performance over five, ten or even 30 years, diversification is key. No one can say for sure what the next decade will hold for investors, but adopting a strategic perspective now will ensure a portfolio that is robust in the good time, as well as during the inevitable bad times.

Absolute return funds should be viewed as part of a wider portfolio and as an important component needed to ensure a balance of investments, and differentiate from traditional markets. The world is likely to be more volatile in the next ten years than it has in the past decade, and the traditional investor – who has enjoyed relatively stable market condition recently – may not be as comfortable as they have been. To them we say, don't write of absolute returns just yet, they may well come into their own.

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Author: Nabeel Abdoula
Head of Discretionary Strategies, Fulcrum

Coming to the end of your interest-free equity loan period

The government launched its Help to Buy equity loan in April 2013 and since then 210,964 properties have been bought under the scheme.

First-time buyers and people moving to a new-build home worth up to £600,000 have benefited from the scheme, which provides an equity loan of up to 20% of the cost of the property interest free for the first five years. But what happens when you come to the end of the interest-free period?

Continue paying

If you haven't paid your equity loan off by the end of the five-years, you'll be charged 1.75% interest on the outstanding loan amount and this will increase by the Retail Prices Index (RPI) plus 1% each year.

Sell the property

If you choose to sell your home, you'll need to repay the equity loan in full. If the value of your property has stayed the same and your loan was 20% then your repayment will be 20% of the value of your home. If the value of your home has increased or decreased the amount you pay will change by the same percentage. So, if your home is now worth 5% more than when you originally bought it you'll owe an extra 5% of original loan value.

Remortgage and keep the loan

If you want to remortgage and keep your equity loan, the new mortgage must not exceed the current mortgage and cannot be longer than the entire term of the existing mortgage. For example, if you remortgage five years after taking a 25 year Help to Buy equity loan, your current mortgage must not be longer than 20 years. You will of course have to start paying interest on your equity loan.

Remortgage and pay the loan

If you choose to increase your borrowing to remortgage to pay the equity loan off in full you'll need to be aware of any changes in the size of your equity loan just as if you were selling.

Your home may be repossessed if you do not keep up repayments on your mortgage

There are a number of options when it comes to the end of your five-year equity loan period. Contact us and we can discuss the right option for you.

Author: 2plan

If your original equity loan value was £20,000 – below is indicative values of the amount owing when you come to sell

House value decreased 5% £19,000

House value the same £20,000

House value increased by 10% £22,000

Better together – Tips for couples planning for their retirement

Whether it's a stash of cash secretly squirreled away to help pay for the odd treat or a loan taken out years ago that's slowly being paid off, each year we find that couples are keeping millions of pounds worth of money or debt secret from one another.

Couples often think that the money secrets they keep are for the best. Some even say that they're saving up secretly to pay for a surprise for their other half. However, the reality is that open and honest joint financial planning is usually the best way for couples to achieve the financial future they want.

It's good to talk

- Estimate what retirement income you'll need and what your outgoings will be. Will they remain the same as they are now, or will you spend more on holidays and hobbies in retirement?
- Work out what income in retirement you're likely to receive. For example, what income will your pension pots give you? You could also request a State Pension forecast from the Department for Work and Pensions.
- Own up to hidden debts and secret stashes of savings and investments.
- Plan for a long retirement – but also think about how the other person would manage if one of you became ill or died.
- Consider topping up pensions and ISAs and whose pot is best to top up.

Know your options

- The retirement options you get from your pension provider might not be the best for you. It's always worth comparing what you can get from other providers too, because you might be able to get a better deal.
- Are there actions you could take to boost your pension pot?
- Consider joining an employer's pension scheme if this option is available to you – even if it's only for a short time.
- State Pension top up – consider paying additional National Insurance contributions to boost your State Pension if you don't have a full NIC record.
- Take advantage of maximum possible tax relief on pension savings.
- Think about sheltering your investments from tax where possible – pensions and ISAs can be a very tax-efficient way of doing this.
- Make use of all available allowances and benefits you may be entitled to.
- Think about how much of your savings you cannot afford to lose and whether you want to take some investment risk with the rest.

Plan together

- Consider seeking professional financial advice together as a couple.
- Watch out for investment or pension scams.
- Consider making a Will if leaving a financial legacy to loved ones is a priority.
- Complete pension provider death benefit nominations so that your pension pot will be passed on to loved ones.
- Make sure you track down all pension and savings arrangements you may have accumulated and use the pension tracing service if needed.
- Consider moving assets between parties to benefit from both personal allowances and the amount of tax-free income you can earn between you.
- Use a retirement preparation checklist.
- Consider how long either of you are prepared and able to keep working for – is part-time work or easing into retirement both physically and financially an option?
- Consider whether you want to stay in your current property, or whether there are financial advantages to moving.

Please note that this is not financial advice and is for information only.

Author: Prudential

Covid-19

What does it mean for my investments?

We recognise how difficult the current coronavirus situation is. You are currently being bombarded with non-stop headlines about the rising number of cases and deaths. And you are being reminded about the possible impact for your investments.

Market swings

We understand that the market reaction to the Covid-19 virus has been huge. This market swing would jolt even the most upbeat investor. Fortunately, though, markets hit by disease outbreaks have a history of bouncing back. But how long the markets will take to recover is a key question and can't be answered yet.

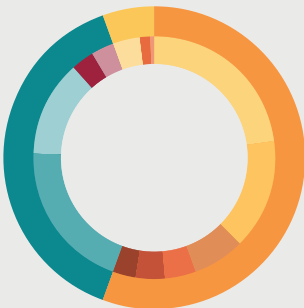
What does that mean for my investments?

We can't predict the exact spread of an epidemic or what the economic effects will be. Even so, we can say that past outbreaks have affected the markets, but they have recovered. It's tough to predict when to get out of and back in the market, so it's best to remain focused on your investment goals and seek advice if you're concerned about locking in any losses.

Diversification

In our view, the most important factor during a market sell-off is to ensure you are well diversified. You can achieve this by investing globally and holding a broad range of assets that behave differently from one another. This may help minimise the effects of a sell-off and reduce the risks you are exposed to.

Diversification across asset classes

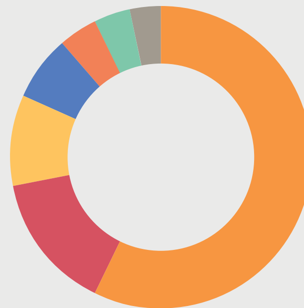


Equities
- UK
- North America
- Asia Pacific but not Japan
- Europe
- Japan
- Global emerging market

Bonds
- UK corporate
- UK gilts
- Global government
- Global

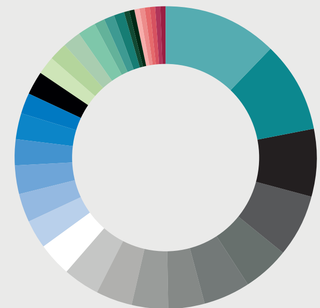
Other
- Alternative
- Property
- Cash – money markets

Diversification across geographic regions



- UK
- US
- Global
- Asia Pacific not Japan
- Europe
- Japan
- Emerging markets

Diversification across investment managers



Architas funds are diversified across leading investment managers. Each slice of the pie represents a manager.

A well-balanced investment portfolio

One of the key benefits of using multi-asset funds that invest in a range of asset classes is the potentially smoother investment journey they should provide. It's not just about the total performance. We consider what level of volatility our funds can tolerate when constructing our diversified multi-asset portfolios.

This is an illustrative example of a balanced multi-asset portfolio.

How are we managing your money?

Our focus is on keeping things simple, aiming to make the process of choosing an investment as straightforward as possible. We do this through our range of multi-manager funds, which invest in a selection of leading fund managers who specialise in different asset classes and countries.

Diversifying in this way means investors could potentially benefit from the experience of some of the best fund managers, but in one investment solution.

We believe extensive research is key to helping us pick the best managers around. We have established a large multi-manager, multi-asset team focussed solely on researching funds. This team has worked through many crises over the years and the collaborative team structure ensures that we can harness the combined strength and experience of the whole team.

At a time when geopolitical concerns are on the rise and volatility has returned to markets (volatility measures the size of short-term changes in the value of an investment), protecting portfolios from large market spikes is possibly more important than ever.

This is why our investment team has maintained a cautious outlook for the last 12 months.

1

2

3

Cautious outlook has helped to cushion fallout from market drops so far:

At the end of last year, we increased our allocation to bonds as a hedge against possible risk to stocks. Holding less risky bonds should help to protect multi-asset portfolios from drops in stock markets. Even so, the market is relatively volatile, making it hard to have a clear perspective on it.

Cautious outlook has helped to cushion fallout from market drops so far:

To reflect rising levels of uncertainty from the coronavirus we have reduced our exposure to stocks. And we have moved to hold more stocks that are less likely to drop in price in a crisis.

Moved away from riskier bonds:

We reconsidered which bonds we hold and, in particular, reduced our allocation to the riskier high yield bonds. As a result of these moves, we increased our cash levels.

What is next for investors?

Stock markets will likely remain turbulent but, for those with a long-term view, the benefits of having a diversified balanced portfolio might help to spread your risk in these turbulent times.

It is going to be difficult to predict what will happen in the short term, but we believe that investors should expect volatility to remain elevated over the coming months.

As such, we continue to adopt the basic principle of diversification across asset classes, currencies, regions and investment managers.

Past performance is not a guide to future performance. The value of investments can go down as well as up and you may not get back the amount you invested. Architas Multi-Manager Limited is a company limited by shares and authorised and regulated by the Financial Conduct Authority (Firm Reference Number 477328). It is registered in England: No. 06458717. Registered Office: 5 Old Broad Street, London, EC2N 1AD

Author: Architas

Markets often bounce back strongly after viral outbreaks. Will they do so with coronavirus?

In February, the S&P 500 index of large US companies suffered its fastest correction since the Great Depression. Having hit a record closing high of 3,386 on 19 February, it fell by 12% during the next six working days as the market fretted about coronavirus's impact on the economy.

This market swing would jolt even the most upbeat investor. Fortunately, though, markets hit by disease outbreaks have a habit of bouncing back.

Stock rebounds

The S&P 500 rose by 14.6% in the six months following the April 2003 outbreak of the SARS virus. It rose by 18.7% in the six months following the April 2009 outbreak of swine flu, by 10.7% following the May 2013 outbreak of Middle East respiratory syndrome (MERS) and by 5.3% following Ebola's March 2014 outbreak.

These statistics might suggest markets overreacted in February, and that, six months on, coronavirus's impact could shrink and stock markets could be restored to good health. Unfortunately, this line of thought may be an oversimplification.

Localised outbreaks

SARS, swine flu, MERS and Ebola made relatively little global impression. They were largely localised in China and its environs, the American continent, the Middle East and Africa respectively. By contrast, coronavirus has infected significant numbers of people outside China.

Moreover SARS, perhaps the most comparable outbreak to coronavirus, happened in 2002-03, when China made up just 8.3% of global economic output. In 2019 China's share has increased to 19.2%, suggesting there is scope for coronavirus to make a greater impact on the global economy now than SARS did in 2003.

Dependence on Chinese manufacturers

In addition, China is more integrated into global supply chains today than at the start of the millennium. Consider Apple, one of the world's largest companies, which recently warned on iPhone sales. It said manufacturing facilities for iPhone parts run by suppliers in China were 'ramping up more slowly than we had anticipated'.

In our current globalised world, coronavirus's disruption of Chinese manufacturing plants can constrict manufacturing in economies located far from China and drag down global stock markets. And Chinese manufacturing has indeed been disrupted, with purchasing manager surveys in China and Hong Kong sinking to all-time lows in February.

What is more, the SARS epidemic broke out towards the end of a three-year period of market decline, the dotcom bust, when stock prices looked relatively cheap. But markets soared to record highs in early 2020, so today's coronavirus-driven economic disruption could hit stocks harder than SARS did in 2003.

Even so, societies can contain pandemics, viral outbreaks do fizzle out, and markets do recover from downturns. Indeed the Federal Reserve has already supported US stocks by cutting rates.

Benefits of a diversified, long-term approach

Moreover, some 'safe haven' sectors, such as utilities, can perform strongly when markets are uncertain. Indeed, the share price of UK electricity and gas company National Grid rose almost 10% in the first two months of 2020.

This reminds us we can potentially benefit from a diversified approach to investing, by placing our investment eggs in more than one basket. In our view, it is also important to take a long-term view with investing. Markets do sometimes decline: it is in their nature. But investing for the long term can potentially help investors ride out such declines.

The value of investments and any income from them can go down as well as up and is not guaranteed, and you could get back less than you originally invested.

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Taking on the twists and turns of volatility

With the market clearly impacted by coronavirus, we expect some markets and sectors to continue experiencing volatility in the near-term. For income investors, developed market bond yields are becoming less and less attractive, and even US Treasury yields have closed as low as 0.5% in recent weeks amid a bid for safe haven assets. Eugene Philalithis explores what impact this turbulent backdrop is having on the macro environment and where he is finding pockets of upside surprise.

Key points

- News flow surrounding the coronavirus continues to drive volatility in markets and we have seen a rush to safe-haven assets like gold and government bonds and meaningful sell-offs in risk assets.
- Whilst a keen eye for risk awareness is needed, we are long the Japanese Yen and currently favour Asia high yield which has performed well versus market dislocations from the coronavirus.
- Whilst we don't believe in making significant directional bets on currency movements, select currency exposures are proving an effective way of hedging risk.

Against this backdrop of low yields, our broad mandate and Fidelity's global research footprint helps us to uncover regions and asset classes that allow us to deliver on our objectives of delivering attractive natural yield. High yield bonds and emerging market debt are key assets to help us achieve this goal, but a keen eye for risk awareness is needed.

Eyes on Asia yield

Allocating between high yield regions based on their respective risk and return profiles is an important way in which we seek to add value in our portfolios. Asia high yield continues to be our favoured high yield region, and against the market dislocations from coronavirus the market has performed better than its European and US peers.

Compared to the energy heavy US high yield market, Asia high yield's roughly 50% weighting to Chinese real estate has benefitted from investor confidence in Chinese policy makers supporting the sector. In addition, leverage and interest cover have been stable in recent months, and spread per turn of leverage, a key metric when assessing high yield bonds, remains attractive.

Pockets of currency surprise

Emerging market debt, both hard currency and local currency, also offer up attractive yields compared to developed market government bonds. One way that we have been managing risk in local currency emerging market bonds is by hedging select currency exposures. One example is the Thai baht given Thailand's economic vulnerability at present.

We do not believe in making significant directional bets on currency movements but see tactical currency trades as an effective way of hedging risk and incrementally trimming or adding exposure to adjust conviction on positions, such as emerging market local currency debt.

Our long position in the Japanese yen, and employment of select equity market hedges have been further sources of strength in these volatile markets.

Diversification remains key

Timing when to dial up and down risk during periods of market volatility can be difficult - particularly when driven by opaque issues like COVID-19 - but our global multi asset approach to income investing is diversified across regions and the capital structure. As always, our focus remains on delivering attractive natural income while managing downside risk in a challenging market environment.

Important information

This information is for investment professionals only and should not be relied upon by private investors. The value of investments and the income from them can go down as well as up so you may get back less than you invest. Past performance is not a reliable indicator of future returns. Investors should note that the views expressed may no longer be current and may have already been acted upon. Changes in currency exchange rates may affect the value of investments in overseas markets. These funds invest in emerging markets which can be more volatile than other more developed markets. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only. The Fidelity Multi Asset funds use financial derivative instruments for investment purposes, which may expose the fund to a higher degree of risk and can cause investments to experience larger than average price fluctuations. These funds take their annual management charge and expenses from your capital and not from the income generated by the fund. This means that any capital growth in the fund will be reduced by the charge. Your capital may reduce over time if the fund's growth does not compensate for it. These funds invest in overseas markets and so the value of investments can be affected by changes in currency exchange rates. There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Sub-investment grade bonds are considered riskier bonds. They have an increased risk of default which could affect both income and the capital value of the Fund investing in them. Rising interest rates may cause the value of your investment to fall. Investments should be made on the basis of the current prospectus, which is available along with the Key Investor Information Document and annual and semi-annual reports, free of charge on request by calling 0800 368 1732. Issued by FIL Pensions Management, authorised and regulated by the Financial Conduct Authority and by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. UKM0320/26924/SSO/NA

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Why investors should try not to panic

The ongoing march of Covid-19 has seen billions wiped off global stock markets, governments enact emergency fiscal measures, entire countries put on lockdown and central banks ease monetary policy with the aim of supporting economies through this event-driven crisis.

The headlines offer doom-laden pronouncements about the stock market and the economy, not to mention the very real health risk to the public. Images of traders' screens turning red are enough to test the nerve of even the most experienced investor, especially as the value of people's pension pots and investments declines.

Yet now is not the time to panic.

As respected investment guru Warren Buffett says:

In the 20th century, the US endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497[1]

Investing for the long-term

There is no doubt that Covid-19 will have real and lasting impacts on the economy, as measured by global GDP figures. Global supply chains have been disrupted, consumption is falling as people stay at home, and companies will struggle to increase earnings. Think of all those cancelled events and the impact on travel companies, entertainment and hospitality providers, and food and drink manufacturers. Clearly, this will be felt.

And while we don't know to what extent these impacts will affect the economy, not to mention our broader communities and wellbeing, it is fairly likely that in the long-term it will eventually be business as usual.

When things eventually return to normal, it is true that all those missed cups of takeaway coffee, flights, sandwiches and movie tickets will never be recovered. But once those shorter-term impacts pass through, consumption will pick up once again – that is to say, people will once again live their lives.

In some respects they may even see improvements. The price of oil has collapsed, which may lead to cheaper petrol prices, while people living in countries where the central bank has cut interest rates may see a reduction in their mortgage payments. Governments are also introducing fiscal boosts that may have an impact on the money we have available to spend.

In the same way, economies will also recover. The question remains whether the US, European or UK economy was poised for recession before Covid-19, or whether the coronavirus was merely the catalyst for a recession that was inevitable after the longest economic expansion on record. Either way, markets will likely recover in the same way they have in previous decades.

So while it is perfectly reasonable that investors feel a degree of panic when crises take hold, it is also true that what can feel like an emergency in the short term may not hold as much significance

10 years later. Indeed, long-term investing helps smooth out the peaks and troughs of the stock market and can be a more successful strategy than trying to time the market.

Regular investing

A "buy-and-hold" strategy will enable you to take advantage of compound interest (whereby you generate earnings on previous earnings) to amplify returns, but it only works if you leave money invested and give it time to work.

But some long-term investors also invest regularly, drip-feeding money into their investments over time to benefit from "pound cost averaging". This is where your cash buys a greater number or units or shares in an investment when prices fall, prompting higher investment returns if a recovery takes place. Simply put, in times such as these – when billions have been wiped off the value of companies – regular investors will be able to purchase more for their money.

Active versus passive

It is also the case that active fund managers have the ability to add value in both rising and falling markets – particularly the latter. Investors who passively track an index will see their investments fall along with the market in which they are invested, whereas an active manager will be working constantly throughout periods of volatility to ensure his or her fund adds value.

Selecting an active fund manager with a history of creating real returns is paramount to ensure investors stand the best chance of riding out stock market wobbles and creating wealth over the long term.

With the above in mind, investors with a sensible, well-diversified, long-term investment strategy in place should arguably try not to panic.

[1] *Buy American. I am, The New York Times, 16 October 2008.*

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