CAPITAL
FINANCIAL SERVICES
Making the most of your assets

Market update on the impact of Coronavirus (Covid-19)

The markets started to turn in late February, with the growing fears around the economic impact of the spread of the coronavirus (COVID-19). On 24th February, the FTSE 100 closed down c3.5%. But this was only the beginning.

We have since seen the FTSE 100 drop by 24% (in the three months to the end of March 2020*), sterling hit a 35 year low and oil prices plummet. Although this looks similar to the financial crisis of 2008, the economy today is very different from that period. Banks are in a stable position and can afford to lend and the Government is ensuring businesses and individuals are supported throughout this period with various business loans and job retention schemes.

But what does this mean for you and your investments, protection and mortgage?

Timing of Investments

The impact of this on some clients' portfolios has been the triggering of a 10% drop notification from discretionary investment managers. This is a new requirement as a result of regulation put into place in December 2018, where if a client's discretionary managed portfolio has dropped by 10% or more since the last quarterly valuation, then affected clients must be notified.

The intention of this is not to cause panic but simply to inform. The discretionary managers have the expertise and discretion to position a portfolio to move to more defensive assets, with the aim of protecting any further falls.

Investors are reminded not to make knee-jerk reactions and to sell out of investments at this time of market turbulence. By doing so, you could realise losses in your portfolios and when markets start to rise again, you could miss out on those early gains.

It is impossible to perfectly time the market and therefore by selling out, there is a real risk of not being able to get reinvested at the right time. There have been a number of occasions in recent history where markets have suffered steep falls. These include the Dot Com bust in 2000 and the global banking crisis in 2008. In all of these previous occasions, the market recovered losses within a relatively short period of time.

Investors prepared to take a long-term view should avoid being tempted to delay making new investment decisions. Consideration should still be made to undertaking planned investment top-ups and in particular, utilising unused ISA allowances. It may seem counter-intuitive to be exposing new money to the markets at a time when everybody is talking about investment losses, but a well-managed diversified investment portfolio is likely to deliver returns in line with expectations over the longer-term, regardless of what the markets are doing today.

Diversification means not putting all your eggs in one basket and can dramatically help to reduce investment risk. Ensuring your portfolio is not overly exposed to equities for example, may reduce the full impact of a market downturn. Diversification by region is another important consideration, as some countries may fare better than others in reaction to the COVID-19 outbreak.

Experienced investors may even view this as a buying opportunity. Phased investment may be a consideration, where capital can be invested in smaller equal instalments over a fixed time period. This strategy could help mitigate the risk of timing the markets, but it is important to stick to the planned strategy.

Protection

The pandemic obviously raises the morbid question of what will happen to me and my family if I were to get ill or even die? Would you be able to sustain your current level of income or would your family be provided for in the event of your death?

If you have an existing protection policy then it is worthwhile checking what cover you currently have in place. If these are old policies, dust off that paperwork and give your financial adviser a call for a review.

If you are concerned about the ongoing affordability of your protection policy, **then please do not cancel this policy or stop paying premiums to make sure that you do not place yourself in an unprotected position**. It is important that you speak to your adviser, as there may be other options available to you such as taking a premium holiday, or reducing the benefit for example. It is nigh on impossible to reinstate a policy once it has been cancelled, so this should not be the first action that you take. You could lose valuable benefits from these policies, which may cost substantially more to replace in today's market.

If you do not have any life cover, critical illness or income protection in place then now is the perfect time to ensure you protect you and your family. Contact your financial adviser for a chat about your protection needs. Protection providers are still offering products at this time which could be suitable for your needs and shouldn't cost you any more than before COVID-19 was amongst us.

Mortgages

As has been well publicised, the Bank of England dropped interest rates to 0.25% on 11th March, then on 19th reduced this to 0.1%. This will particularly help homebuyers or borrowers on the lenders' standard variable rate, as well as those on discounted rate or tracker mortgages, and may filter down in due course to fixed rates.

But the pandemic has definitely impacted those looking to purchase a new house. Estate agents are now offering virtual and 360-degree viewings but buyers could now miss out on that gut instinct that the house 'feels' right. How do you value a house when you can't get into it? Lenders not being able to access properties to carry out surveys and valuations means that lenders can't offer mortgages on particular types of property. Examples include new builds, flats and new buy to let purchases.

But the market is still there if you want to take advantage of the lower interest rates being offered. Perhaps you could transfer your existing deal to a better rate with the same lender or remortgage to a new lender? If your current mortgage deal is up for renewal soon, then now is the best time to review your mortgage. So speak to your mortgage broker about reviewing your mortgage today.

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Email: **info@capitalfs.co.uk**
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THE VALUE OF INVESTMENTS AND INCOME FROM THEM CAN GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

**Source: FE Analytics 06/04/2020*

A MORTGAGE IS A LOAN SECURED AGAINST YOUR HOME OR PROPERTY. YOUR HOME OR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP THE REPAYMENTS ON YOUR MORTGAGE OR ANY OTHER DEBT SECURED ON IT.

YOU MAY HAVE TO PAY AN EARLY REPAYMENT CHARGE TO YOUR EXISTING LENDER IF YOU REMORTGAGE.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE MOST FORMS OF BUY TO LET MORTGAGE.

TT153 070420