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INVESTING DURING A PANDEMIC

HOW ARE INVESTORS RESPONDING TO THE CORONAVIRUS CRISIS?

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"We have to throw away the rule book. We've never seen this kind of crisis in our lives."

These were the words of Ana Botín, the executive chairman of global bank Santander, speaking in early May about how businesses can respond to the coronavirus pandemic. Her sentiments reflect how profound and unique the current situation is.

From a financial perspective, the true impact of COVID-19 will only become known in the years to come. However, it is clear already that economies around the world will be significantly affected by the virus and, moreover, the tight lockdown measures that have subsequently been introduced in countries across the globe.

On an individual level, the challenge for investors is to understand how the pandemic may shape, or reshape, their investment portfolios. Financial markets are fluctuating to a greater degree than is normal; while on the global stage, new interest rate changes and economic stimuli packages are being introduced on a daily basis.

To help address this challenge, FJP Investment has commissioned a new, independent study among more than 850 UK-based investors. The respondents – who all had investments worth in excess of £10,000 – were asked about how they were adapting their financial plans in light of the global pandemic, as well as their sentiment towards different asset classes at this time.

The findings, as detailed in this report, will help investors to benchmark their own decisions against those of their peers. At the same time, the research offers an indication of broader investment trends that ought to be considered in the weeks and months to come.

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THE FINDINGS AT A GLANCE...

Between 1st and 4th May 2020, FJP Investment commissioned an independent survey among 852 UK adults. Each of the respondents had personal investments worth in excess of £10,000, which does not include property, pensions, savings or SIPPs.

Here are a few of the key findings

Nearly two-fifths (38%) of investors believe they will be in a weaker financial position at the end of 2020 than they were at the start, compared to 29% who said the opposite

Almost half (48%) view property as a safe and secure asset in the midst of the current crisis, compared to just 12% who do not; the remaining 40% are unsure

A third (32%) believe financial markets will recover quickly once COVID-19 is brought under control

Nevertheless, a degree of inertia has set in, with 43% of investors holding back on making new investments until the pandemic has passed

44% are reconsidering their financial strategy as a result of UK interest rates being cut to just 0.10%

More people are satisfied with the UK Government's response to COVID-19 (42%) than are not (31%)

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RECONSIDERING FINANCIAL STRATEGIES

FJP's research clearly demonstrated that investors are reconsidering their financial strategies as a result of coronavirus.

Indeed, at the start of 2020, the landscape looked very different – Boris Johnson had recently won an overwhelming majority in the general election of December 2019, and Brexit formally took place on the last day of January. Both factors led to the so-called 'Boris Bounce', with financial markets buoyed and investors eager to push ahead with plans that had temporarily been put on hold.

By mid-March, the onset of the coronavirus pandemic had rendered many of these financial plans unsuitable. The confidence of some investors has been shaken as a result – nearly two-fifths (38%) of the investors surveyed believe they will be in a weaker financial position at the end of 2020 than they were at the start, compared to 29% who said the opposite.

More generally, a sense of inertia has set in among many investors; an inevitable result of economic uncertainty. It mirrors the inactivity that was triggered by the EU referendum back in 2016, with investors eager for greater clarity over how events would unfold before pushing ahead with significant financial decisions.

Over four in ten (43%) investors are currently holding back from making new investments until the COVID-19 pandemic has been contained.

Conversely, other investors are being spurred into action by the UK's record-low interest rates. On 19th March 2020, the Bank of England cut the base rate to an all-time low of 0.10%; according to FJP's study, this decision has encouraged 44% of investors to consider new investment opportunities so they can make their money currently sat in savings accounts work harder.

So, for those who are still looking to make investments, or restructure their portfolio, which asset classes are they being drawn towards?

APPEALING ASSETS

Looking to different asset classes and financial markets, investors are split on the actions they are planning on taking.

For example, 32% of investors said they are confident that financial markets will recover quickly once the pandemic has been contained – almost the exact same number (33%) disagree with this sentiment. Interestingly, a greater proportion of male investors (36%) than female investors (26%) held the more optimistic position.

Over a quarter (27%) of the respondents are planning to purchase stocks and shares that have fallen significantly in value so far in 2020, with a view to holding these investments until they recover in price. This strategy is particularly prevalent among younger investors – 43% of investors aged between 18 and 34 said they planned to do this – compared with those aged of 55, where the figure falls to just 12%.

Elsewhere, the research highlighted that bricks and mortar remains a popular asset class.

PROPERTY REMAINS POPULAR

Almost half (48%) of the 852 investors surveyed said they view property as a safe and secure asset in the midst of the current crisis. This compares to just 12% who do not think real estate is a reliable investment right now; and the remaining 40% who are unsure.

It underlines the faith investors place in bricks and mortar that it is able to still deliver long-term capital growth even at times of political and economic turmoil. The sheer weight of historical data supports such a viewpoint; according to Land Registry figures, the average UK house price rose from £50,000 in 1990 to £250,000 in 2020.

COVID-19 has evidently not affected investors' broader attitudes towards the real estate sector. However, property transactions and construction activity have naturally been hampered by the social distancing measures imposed to prevent the spread of the virus.

FJP's research shone a light on this issue. The survey found that 20% of investors were planning on buying a property in 2020 but will now wait until after the pandemic has passed before pushing ahead with these plans; a similar number (19%) have put a freeze on plans to sell a property this year.

The findings suggest that the practical impediments to buying and selling property – namely, being able to conduct viewings, complete valuations and surveys, secure a mortgage and wet-sign documentation – are forcing investors to rethink when and how they engage with the property market.

Nevertheless, the underlying positive sentiment as well as the ambitions to complete property sales in the near future suggest that once the coronavirus crisis has been contained, there may be a surge in market activity.

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SENTIMENT TOWARDS GOVERNMENT

Investors were also asked about their sentiments towards the UK Government's handling of the crisis. This has understandably been a pertinent topic in the media, with Westminster's response to the pandemic carefully analysed from wellbeing, social and economic perspectives.

The survey found that more investors are satisfied with the UK Government's response to COVID-19 (42%) than are not (31%). Moreover, the positive sentiment towards the Government was more common among investors aged over 55 (46%) than it was among those aged between 18 and 34 (34%).

Boris Johnson and his cabinet have regularly stressed that this is an "unprecedented" crisis, which they have responded to with "unprecedented" levels of support for businesses and consumers. These have included a job retention scheme, mortgage holidays, business loans and a bolstered welfare system.

While quite closely split, the actions taken by the Government have garnered more support than opposition. How this sentiment evolves over the coming months – during which time the lockdown is set to remain in place, albeit with the potential for a few relaxations – remains to be seen.

THE THOUGHTS OF FJP

"After a string of general elections and the ever-present uncertainty concerning Brexit, investors in the UK will have been hoping for a much calmer, more predictable 2020. What has transpired is a crisis the likes of which have not been seen in this country since the Second World War.

"It will already have become clear to investors that the coronavirus pandemic requires action – financial markets are fluctuating widely, with the performance of different asset classes being shaped by social distancing measures, a slowdown in economic activity, and restrictions on global trade.

"However, investors should also be conscious that there are numerous opportunities amongst the challenges. As we often see during recessions, investors brave enough to make decisions and commit to a well-considered strategy may emerge from this crisis in a stronger position.

"When it comes to the financial strategies that investors are currently devising, the research highlights that property remains in many people's plans. The UK property market's performance over several decades breeds confidence, and during this period of uncertainty, it seems a large number of investors are eager to back bricks and mortar as a safe, long-term option.**"**

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