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EMERGING FROM THE PANDEMIC:
UNDERSTANDING THE IMPACT OF COVID-19 ON UK INVESTOR BEHAVIOUR

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The outbreak of the Covid-19 pandemic triggered one of the biggest economic shocks in history. The FTSE 100 index fell 14.3% during 2020, marking the poorest performance among the largest international stock indices, and its biggest decline since the 2008 financial crisis, when it slumped 31.3%. Indeed, the IMF estimated that the global economy shrunk by 4.4% in 2020, the worst decline since the Great Depression of the 1930s.

It is perhaps unsurprising that in the year since, the impact of the pandemic, coupled with the uncertainty surrounding Brexit, has profoundly altered the financial landscape for UK investors, whose portfolios and strategies have come under intense pressure.

The question is, has the uncertainty of the past year created a bottleneck of saved wealth, and if so, where can we expect it to be released once normality and confidence returns?

To examine the impact of Covid-19 on financial decision-making and uncover the changes in investors' risk attitudes as we emerge from the pandemic, FJP Investment has commissioned a new, independent study among 735 UK-based investors. The respondents were asked about their current risk-appetite, investment plans and general financial outlook in light of the turbulence of the past 12 months.

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THE FINDINGS AT A GLANCE

Between 27 April and 17 May 2021, FJP commissioned a survey among 735 UK adults. Each of the respondents had investment portfolios worth in excess of £20,000, which does not include their primary residential property, savings, pensions or SIPPs.

44%

Almost half (44%) of UK investors say they have become more risk-averse in their financial decision-making since the start of the pandemic

42%

42% have paused on making major financial decisions until the pandemic has passed, while 40% said that Brexit has made them more wary about making new investments

40%

52%

Younger people (18-34) have become relatively more risk averse – 52% are less willing to indulge in higher risk investment decisions

56%

Even with record-low interest rates in the UK, the majority of investors (56%) said they would prefer to leave money in savings accounts at present

63%

Female investors (63%) are more likely to prefer to leave their money in a savings account than their male counterparts (52%)

39%

39% of investors are gravitating towards safe-haven assets, such as property, at present because of the financial uncertainty caused by Covid-19

40%

40% plan to become far more active in their investments once lockdown restrictions have been fully lifted (provisionally on 21 June)

13% **of investors plan to invest in cryptocurrencies in the coming 12 months – this rises to 32% among those aged between 18 and 34**

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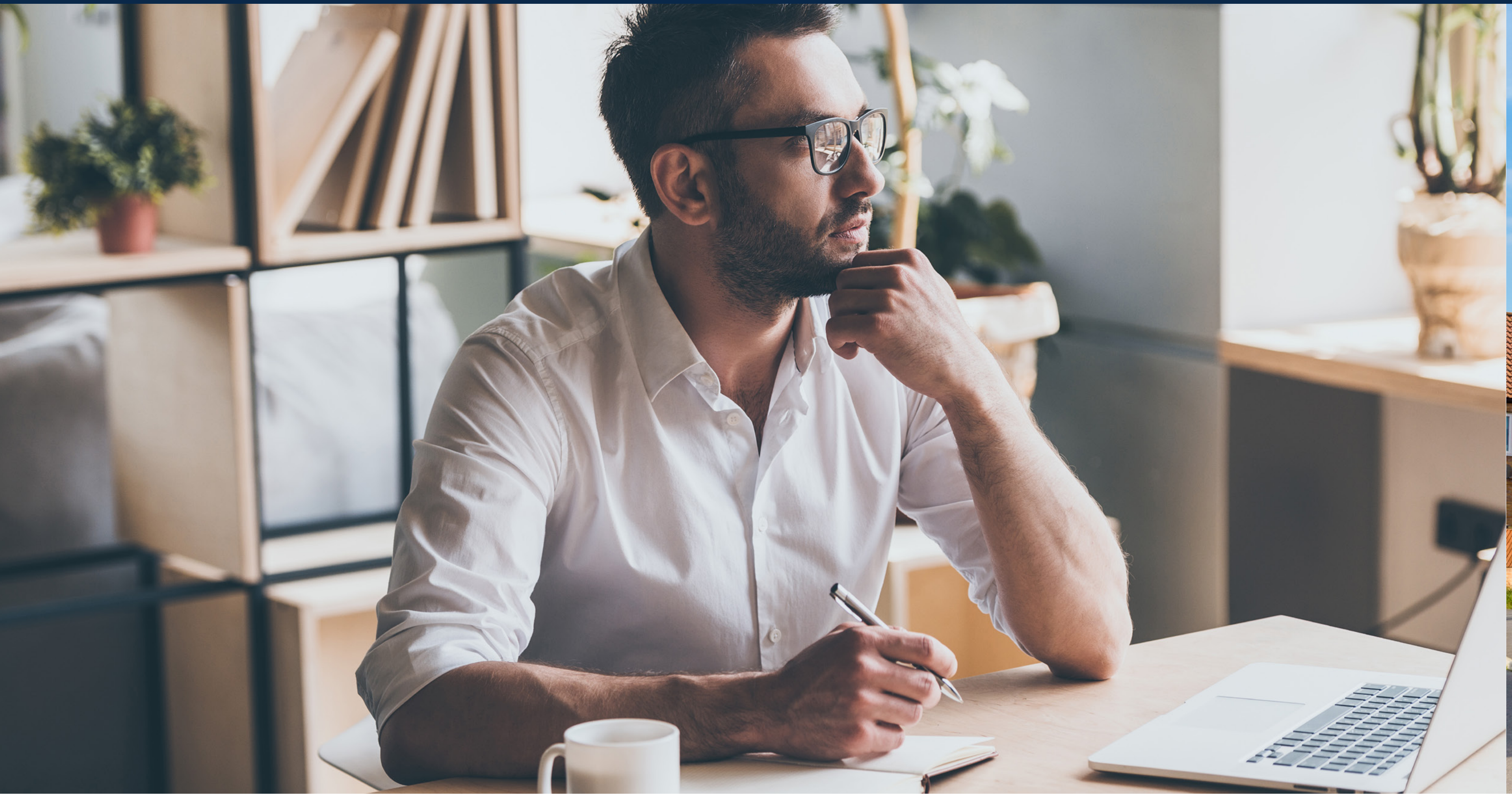

COVID-19 AND BREXIT ENCOURAGE CAUTION

The data shows that nearly half of UK investors report being more risk-averse since the onset of the Covid-19 pandemic. Of the respondents, 44% said they have shown more caution in their financial choices since March 2020, while a further 42% say they have paused on making major investment decisions for the time being.

Brexit has been another complicating factor, adding a layer of caution for investors. Four in ten investors reported having paused major financial decisions due to the uncertainties surrounding the repercussions of the Brexit deal – nearly as disruptive as the pandemic (42%).

While the uncertainty of the past year has affected different groups in diverging ways, there are some similarities of thought that present themselves in the findings. For instance, investors with both larger and relatively smaller portfolios have shown similar levels of risk aversion in relation to the volatility of the political landscape. When asked whether they had paused on any major financial or investment decisions in the last year as a result of the extended lack of clarity surrounding the Brexit withdrawal negotiations, 42% of those with portfolios of £20,001-£35,000 confirmed they had, while 40% of those with portfolios of more than £300,000 agreed.

INVESTORS LOOKING TO SAVINGS AND SAFE HAVEN ASSETS

The survey found that on average, 40% of investors have decided to wait for more clarity before making major investment decisions, with 51% of the younger cohort (18-34) doing so, contrasting with just 36% of over-55s.

The research has also highlighted a tendency towards saving. Even with interest rates at historic lows, a majority (56%) of UK investors said they would prefer to keep their money tucked away in a savings account given the current climate of uncertainty. More than six in ten female respondents (62%) favoured this option, compared with 52% of male respondents.

Of those who did look to invest, traditional 'safe haven' assets took some precedence. Overall, 39% said the pandemic has made them more likely to invest in assets like property, a clear indication that portfolio protection remained at the forefront of investors' minds given the volatile environment. This includes 49% of 18-34-year-olds, contrasting with only 32% of over-55s.

Conversely, those with the largest investment portfolios (£150,001-£300,000 and £300,000+) were substantially more likely to invest in traditional assets (45% and 46% respectively).

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INVESTMENT BOOM POST-LOCKDOWN

While there is an identifiable trend in the figures highlighting a year of cautious activity and preservation, the numbers do show some cause for optimism for a resurgence in investment activity.

Four in ten respondents said that they would become more active in managing and investing their money after the 21 June lifting of social distancing measures, should the roadmap remain intact. Nearly six in ten (58%) of those aged between 18 and 34 reported an appetite to become more engaged in their investments, while those over the age of 55 anticipated more sparse levels of increased activity (30%).

Looking ahead, as we emerge from the pandemic into new certainty, healthy numbers of investors are reporting an intent to increase their stock trading activity. Overall, 28% of respondents said they expected to invest money, or increase their investment, in the stock market. Again, the youngest age group of respondents (18-34) showed the most enthusiasm in this area, as 42% said they would expand their stocks investments, compared with just 17% of those over 55. There also appears to be a correlation between size of investment portfolio and enthusiasm for stocks – the largest portfolios of over £300,000 recorded nearly half (48%) registering intent, while the smallest portfolios of the groups surveyed recorded just 18% interest.

Further, more than one tenth of investors (13%) plan to invest in Bitcoin or other cryptocurrencies in the coming year, with the youngest cohort showing a particular appetite for this type of asset, with interest rising to 32% among those aged between 18 and 34. In terms of investment portfolio size, it is those with the largest who are most enthusiastic towards cryptocurrencies – 17% with portfolios over £300,000 are planning on crypto investments in the next 12 months.

THE THOUGHTS OF FJP INVESTMENT

“In the midst of the pandemic, it is clear that a prevailing sentiment of risk aversion has set in among investors, which has only been exacerbated by further uncertainty in the build-up to and fallout from Brexit. Combined, these factors have led to a state of inertia, with investors holding fire on making any major financial decisions – indeed, many are more comfortable leaving money in savings at present, despite record-low interest rates.

“The turbulent events over the past year may prompt investors to take a step back and re-evaluate their risk tolerance in line with their financial goals, as investor confidence builds to un-pause financial decision-making and navigate the new normal.

“Tellingly, property continues to be perceived as a safe asset in the eyes of investors, with the market emerging from the pandemic in remarkably buoyant form, further highlighting its resilience as an investment asset. It will be fascinating to watch how, as lockdown measures are fully lifted on 21 June (all being well), investors spark back into life. I expect pent-up demand and savings to be released, resulting in a flurry of investment activity in the second half of 2021.**”**

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