A guide to investments and market volatility

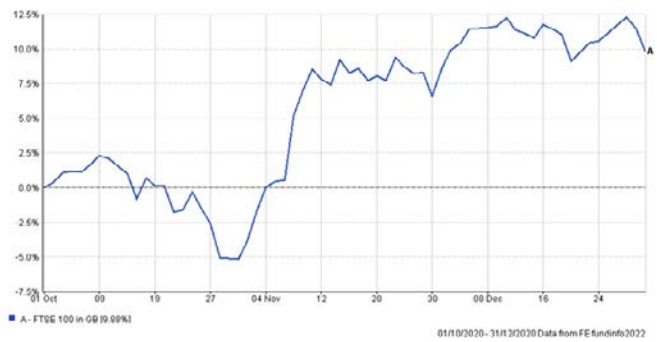
As the current economic crises continues to make headlines, investors may naturally be concerned about the impact on the value of their investments and what action they should be taking.

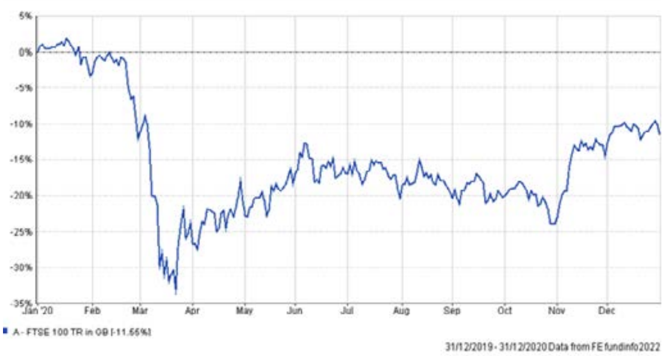
Recent announcements from the Bank of England suggest that the UK economy may already be in recession. Inflation driven by soaring global energy costs resulting from the Russian invasion of Ukraine now in the region of 10% and is expected to rise further. The value of the FTSE 100 share index has fallen by around 7.2% since mid-August*. Meanwhile, the value of the pound fell to a record low against the dollar in response to Chancellor Kwasi Kwarteng's mini budget statement on 23rd September. The weak pound is likely to make imports of goods and services more expensive, further fuelling inflation.

Overall, the situation may seem very gloomy, so what should investors worried about the impact of the crisis on the value of their investments do?

Timing of Investments

Firstly, it is important to remember that investments should always be viewed as medium to long-term holdings. Markets will invariably react and fall in value in relation to short-term uncertainty and bad news, as was the case in early 2020 at the start of the Covid pandemic and the announcement of lockdown. Markets fell dramatically during March 2020, but later in 2020 when the promise of a vaccine started to emerge the FTSE 100 index rose by around 10%* during the final quarter of the year, as shown below. Panicked investors selling out of their investments in the Spring would have likely to have been harder hit by missing out on this upturn.





> Investors should think carefully before making a decision about disinvesting in response to short term volatility. By doing so, you could realise losses in your portfolios, and you could miss out on (some of) any future recovery if you decide to re-enter stock market-based investments later.

*Source: FE Analytics 29/09/2022

It is obviously impossible to know how long the current period of economic uncertainly will last. The Bank of England has attempted to stabilise the markets using temporary quantitative easing (QE) in the form of government bond purchases. This appears to have halted the fall in the value of the pound for now. However, further interest rate rises to control inflation are also to be expected and additional Bank of England intervention may be required.

Financial advisers select investment portfolios for clients to an agreed risk level. These portfolios will invariably contain a blended range of different asset classes to diversify risk and deliver investment returns over the long-term. Equities have proven in the past to be a good insurance against inflation over the longer term as they generally deliver returns over and above inflation. The opposite is true of cash, which generally is eroded in value by inflation over the longer-term. This is an important consideration as inflation continues to rise. However, cash or other lower risk assets in a portfolio are important to help offset the effects of short-term volatility. Therefore, it is important to hold a blend of asset classes within a portfolio and with the help of a financial adviser select an overall asset mix suitable for both your investment objectives and the amount of investment risk you are prepared to take.

We understand that it is difficult when you are watching the value of your accounts falling. Hopefully this factsheet will help you gain a better understanding of current events. If you are still concerned about the value of your investments and the impact of the economic crisis, then speak to your financial adviser. Your adviser will be able to revisit your objectives and, if necessary, reassess how much investment risk you should be exposed to.

If you are worried about making new lump-sum investments in the current climate than phased investment may be a consideration, where capital can be invested in smaller equal instalments over a longer period. This strategy could help mitigate the risk of timing the markets but is not guaranteed.

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More questions?

Get in touch with us.