An occasional paper from Fiscal Engineers

Tips for unsettling times

Tips for unsettling times

The news today can feel a little bit unsettling. There is no doubt that these are tough emotional times for investors. Russia's invasion and brutal war in Ukraine is unsettling on both a human and an economic level. The plight of the people of Ukraine and the broader pitting of Western values against totalitarian oppression weigh heavily. The impact of the war on energy, fertilizer, commodity and food prices, combined with global supply bottle necks and continuing Covid lockdowns in China are exacerbated by the growth in money supply from quantitative easing and financial support measures taken during the pandemic. This has led to a rapid rise in inflation globally to levels not seen for several decades. That can feel uncomfortable.

From an investment perspective, the impact has been more varied than the news might suggest[1] so far this year. Global equity markets have handed back some of the, perhaps, unexpected gains of 2020-2021, but not in a uniform manner. Of note, high growth stocks with poor or non-existent profits have been particularly hard hit, impacting the US broad market (down 18%) and the tech-oriented Nasdaq (down 28%). Yet, global markets, in GBP terms, are down only 10% or so. Sterling's recent fall against the dollar has helped, as overseas assets now buy more Pounds. The UK equity market is more-or-less flat. It is worthy of note that a well-constructed exposure to global value stocks has delivered gains of nearly 4% so far this year, from which diversified investors will have benefited. A similar value outcome has been seen in emerging markets.

Over the longer time horizon that most investors face, equity assets should provide inflation-plus returns to protect the value of wealth. Unfortunately, there are no certain inflation hedges.

The fears of inflation have pushed bond yields higher, with resultant falls in bond prices. Shorter-dated, higher quality bonds – favoured in client portfolios – have been impacted to a lesser degree than long-dated bonds. As an example, short-dated UK gilts are down 1.5%, whereas a portfolio of all UK Gilts is down a little over 10%. The positive is that – going forward – bonds are now yielding materially more than a year ago.

All-in-all, a well-diversified global equity portfolio, with exposure to value stocks and holding shorter-dated high quality bonds, has probably been more solid than the news might suggest, and performance certainly sits well within the bounds of expectation.

Here are some tips to help keep things in perspective at this challenging emotional time:

Tips for unsettling times

1. Accept the uncertainty of markets – a well-diversified portfolio protects you from any one area of the markets suffering particular pressures. Your portfolio will probably be performing better than the headlines suggest.
2. Don't measure your portfolio's performance from the previous top of the market, but over a longer and more sensible timeframe, and from where you started. The last few years have been really good to investors. Giving a little back is part of any investing journey.
3. Try not to look at your portfolio too often. Get on with more important things in your life. Once a year is more than enough, but that takes some will power!
4. Accept that you cannot time when to be in and out of markets – it is simply not possible. If you resign yourself to this fact, investing feels much less stressful.
5. If markets have fallen, remember that you still own everything you did before i.e. the same number of shares in the same companies, and the same bonds holdings.
6. Most crucially, a fall does not turn into a loss unless you sell your investments at the wrong time. If you don't need the money, why would you sell?
7. The balance between your growth (equity) assets and defensive (high quality bond) assets was established by your adviser to make sure that you can withstand temporary falls in the value of your portfolio, both emotionally and financially. A recent fall in the markets does not change this.

[1] Data used in this paragraph uses market returns from funds capturing these specific market risks, as examples. See endnote for details.

8. Be confident that your (boring) defensive assets will come into their own, protecting your portfolio from some of the pain of material equity market falls, if they occur.
9. If you are taking an income from your portfolio, remember that if equities have fallen in value, you will be taking your income from your bonds, not selling equities when they are down.
10. Your adviser is there – at any time – to support you. They are a source of fortitude, patience, and discipline on which you can draw.

These are unsettling times, but your best defense is to keep to your plan, remaining invested in a well-diversified, robust portfolio and leaning on your adviser if necessary.

'This too shall pass!' as the legendary investor and founder of Vanguard used to say.

The team at Fiscal Engineers

Risk warnings

This article is distributed for educational purposes and should not be considered investment advice or an offer of any security for sale. This article contains the opinions of the author but not necessarily the Firm and does not represent a recommendation of any particular security, strategy, or investment product. Information contained herein has been obtained from sources believed to be reliable but is not guaranteed.

Past performance is not indicative of future results and no representation is made that the stated results will be replicated.

Data source

World equities (developed)	iShares Core MSCI World ETF USD Acc
Emerging markets value	Dimensional Emerging Mkts Val A USD Acc
Emerging markets	Vanguard Em Mkts Stk Idx £ Acc
Global Value	Dimensional Global Value GBP Acc
US broad Market	Fidelity Index US P Acc
Tech stocks (NASDAQ)	Invesco QQQ ETF
Short-dated Gilts	iShares UK Gilts 0-5yr ETF GBP Dist
All Gilts	iShares UK Gilts All Stks Idx (UK) H Inc

Market data used in this article represent the returns from funds capturing these specific market risks. **They are provided for informational purposes only.** All performance in GBP terms, except for US markets (USD).