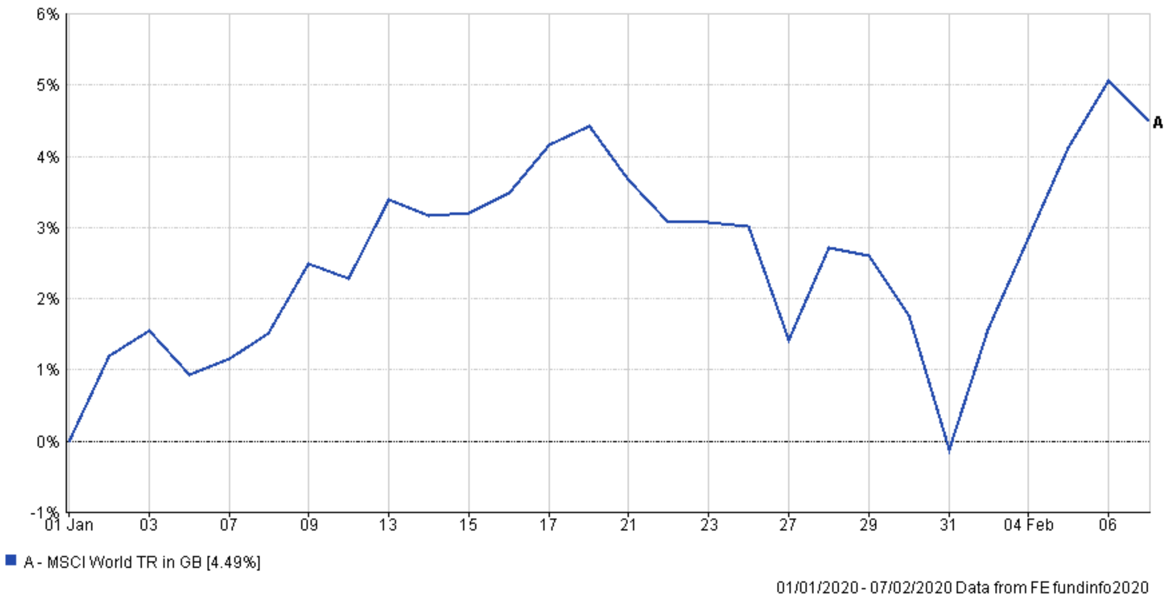
Coronavirus – Impact on your Finances

When asked what we do as Financial Advisers, I occasionally explain that it is an ugly business - we deal with tax, death, disease and deferred gratification (we save tax, arrange life cover, disability cover and long-term investments).

The swift spread of the Coronavirus has brought all of these perspectives into sharp focus lately. Whilst it is tempting to trivialise the stock market impact, it seems that pandemics are likely to become a reasonably a regular occurrence in the future. Just as importantly, for those taken by the disease and their loved ones, the impact is devastating.

When it became clear that the virus would spread quickly stock markets had an understandable wobble, which at the time of writing was short-lived. Indeed, a few weeks into the outbreak and it seems there is little impact at all. During January the MSCI world index rose and fell, then rose again in February at the time of writing (10 Feb 2020).



It is not difficult to list prior outbreaks – SARS, Ebola, Zika, Swine Flu, Asian Flu. With global mobility increasing constantly the ease with which these diseases spread is understandable. You could say that mankind has made life very difficult for many species on this planet but has given a real helping hand to some viruses!

The key point from an investment perspective is that such events are unlikely to have an impact on the value of your investments in the medium to long term.

Within China we can expect a slowing of the economy, which hopefully will be temporary. The lock-down instigated by the authorities and aimed at containing the disease will of course hamper businesses. The pace of economic growth in China is slowing in any case, as the rampant growth seen over the last two decades cannot be maintained as the economy matures. Once the disease has run its course this may make it difficult to separate the impact of the coronavirus from the general slowing. The same could be said of other countries touched by the disease.

It is important to remember the context here, slowing growth in China means around 5% annual increase in GDP rather than 6%, a growth rate we in the UK would relish if we had the chance.

Its part of our job to view world events in financial terms. But our thoughts are also with the people living in the affected areas. For those infected with the coronavirus it must be a frightening time. The vast majority will recover, but it is disastrous for those whose lives are cut short or for those who have lost a family member.

Where there is a general lock down life must be difficult. Without work to maintain incomes they must rely on savings and goodwill. Even those with sufficient financial resources may find that demand outstrips supply of household essentials.

As financial advisers we always recommend maintaining some cash savings and arrange insurances to help at times of difficulty. Such events may serve as a useful reminder, although in extreme times money may not be enough.

In my opinion, the most likely scenario is that the coronavirus will run its course in a few months and business will return to normal and markets will continue much as before. All the same, we recommend taking stock and thinking about how lucky most of us are.