Irish Life

Coronavirus
COVID-19

CORONAVIRUS UPDATE

FOR IRISH LIFE WORKPLACE PENSION CUSTOMERS

Many commentators predicted a second wave of Covid-19 and it looks as if that second wave is starting to swell. A number of countries are experiencing an increase in cases again post a lift in lockdown restrictions either partially or totally. In the case of Ireland, we are moving through a phased approach to remove restrictions but recent evidence would suggest the rise in case numbers may see a return to phase 2 for some or all of the country rather than a progression to the final phase 4.

The news has been the same in other countries like the UK and the US while European hotspots are starting to re-emerge in places like Spain. This may be due to a resurgence in cases or a function wider scale testing which is catching more cases than before. Either way, it is a setback for everyone and a reminder that an increase in cases may result in an increase in the number of deaths.

Curiously, the stock markets have taken a different view. Although there is no breakthrough vaccine yet, there are dozens of trials in progress with varying degrees of success. Combined with the significant support spending promised by governments, there is optimism amongst some investors that one of them will provide a solution in the near future. As the end of the summer approaches, the focus will shift to shorter, colder days, the return of the schools, the traditional cold and flu season and what all of that might mean. Investors may once again need to rise to the challenge of staying invested through short term uncertainty to get better longer term outcomes.

We know that when it comes to investing, uncertainty is uncomfortable for most people. Equity market highs and lows can often prompt short term emotional decision making and actions to buy or sell when perhaps the right thing to do is nothing. That is why we have specifically designed our investment solutions to make the journey smoother.

Long Term Investing

Data Source: StockCharts.com. S&P 500 Total Return

Warning: Past performance is not a reliable guide to future performance.

There are two ways we do this:

1 Diversification

This means spreading investments so the performance of your fund is not over exposed to any one company, asset class, sector, geography, currency, manager or strategy. In practice it means that if equities are falling, for example, your fund can still benefit from other assets, like bonds, going up. This reduces the overall impact of any fall.

2 Risk Management

Growing retirement savings over time means investing in some higher growth but higher risk assets like equities. Our core competence is managing the risks associated with these assets in a variety of ways to reduce the peaks and troughs you might otherwise experience. These include specialist investment strategies like the Equity Option Strategy or science based risk management like the Dynamic Share to Cash strategy with a large number of our key funds and strategies.

The chart below shows the sharp fall and subsequent recovery in stock markets before, during and after the outbreak of Coronavirus. The vast majority of the fall has been recovered in a relatively short period of time although global stock markets remain down mid-single digits year to date. Although they rose nearly 4% in local currencies through June, a stronger Euro offset most of that gain leaving them up approximately 1.5% on this time last year.

MSCI ACWI Perfomance (Global Equities)

One-year performance chart

Source: ILIM, Factset, Date is accurate as at 31 July 2020

Warning: The value of your investment may go down as well as up.

Warning: If you invest in this product you may lose some or all of the money you invest.

Warning: These funds may be affected by changes in currency exchange rates.

Warning: If you invest in this product you will not have any access to your money until you retire.

Lifestyle Strategy

Our retirement savings plans offer lifestyle strategies which most people avail of because they manage the level of risk you are exposed to approaching retirement. It means you invest in more growth style funds when a long way from retirement and gradually switch to lower risk funds closer to retirement. Growth funds are better for returns but more likely to experience short term falls from which your fund needs time to recover. Following a lifestyle strategy means you don't have to worry about how and when to switch your savings to lower risk funds – we do it for you.

Self-Select funds

However, you don't have to participate in the Lifestyle Strategy and can instead select the fund or mix of funds that suit you best. We typically see people make selections based on how long they have to retirement or when they will need the money. When that time frame is 10 years or more, it may be more appropriate to consider funds with higher long term expected growth although these funds also carry higher short term risks. It is prudent to consider moving to lower risk funds as you get closer to needing the money.

When self-selecting funds, it is particularly important to understand and consider your appetite for risk and tolerance for loss i.e. how much negative performance will you or can you endure. It is also crucial to be aware of the impact that volatile stock markets can have on your decision making. Market highs and lows can often prompt investors to act when it is ultimately detrimental to their long term interests, whether over confidence when markets are strong or no confidence when they are weak.

Switching when equity markets are performing negatively

In times of uncertainty or equity market volatility, it can be tempting to switch some or all of your retirement savings to lower risk funds or even cash. While this is provided as a free option, it is worth remembering that even professional investors find it difficult, if not impossible, to consistently time when markets will rise or fall. More often, people are driven by sentiment and may exit funds when they have already fallen only to buy them back later at a higher price when stock markets have recovered. This simply erodes the value of your savings over time. Getting invested and staying invested has been shown to be the most effective strategy over time.

Benefits of Monthly Contributions

Buying when prices are lower makes sense. With monthly contributions you continue to buy units during periods of equity market weakness when unit prices fall which means you get more units for your contribution. The benefit is that your fund value will increase faster as equity markets recover.

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