

The impact of coronavirus (COVID-19) on the global wealth market

The World Health Organisation’s (WHO) Coronavirus disease 2019 situation report (70), released on 30th March 2020, stated that there were **693,262** confirmed cases of COVID-19 globally distributed; this had increased in the 24 hours since previously reported by 58,469 cases. The number of deaths related to COVID-19 had increased by 3,215 worldwide in the 24 hours before to a total of **33,106**.



The positive news was that no new countries, territories or areas had reported cases of COVID-19 in the same 24-hour period. “These are tragic numbers, but let’s also remember that around the world, more than 100,000 people have recovered.” However, the pandemic is still evolving; more countries and more people will continue to be affected. “The chronic global shortage of personal protective equipment is now one of the most urgent threats to our collective ability to save lives.”¹

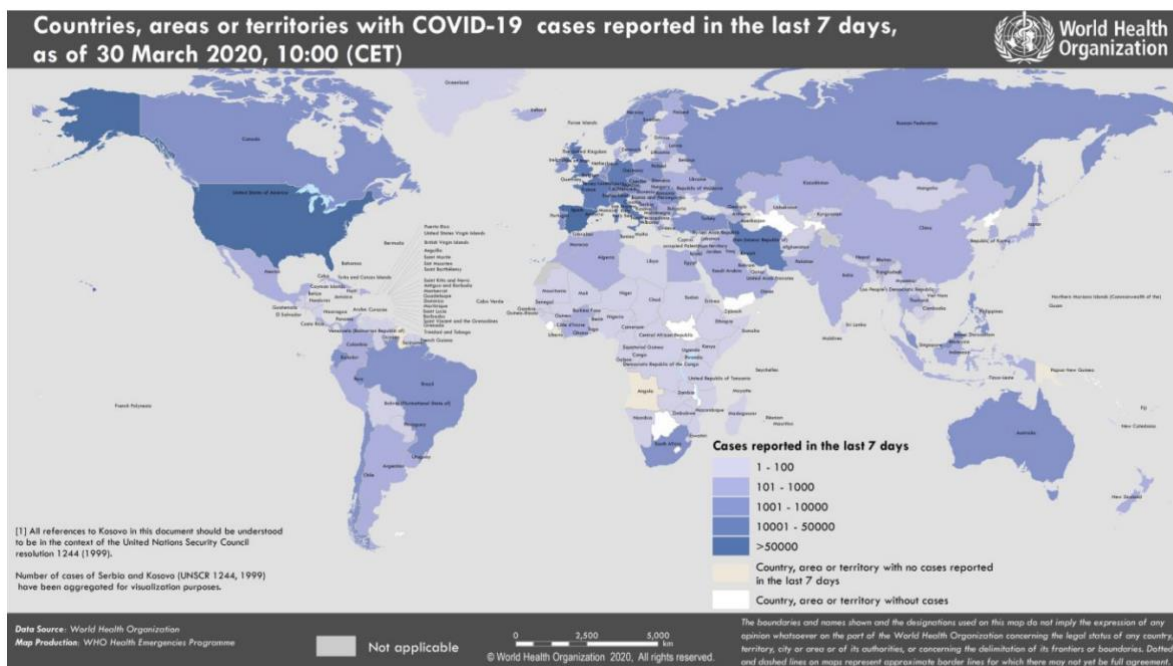


Figure 1. Countries, territories or areas with reported confirmed cases of COVID-19, 30th March 2020²

¹ <https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---27-march-2020>

² https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200330-sitrep-70-covid-19.pdf?sfvrsn=7e0fe3f8_4

Across the globe people are thinking hard about how to protect the health and wealth of themselves and their families. This pandemic is a profound concern to all. Companies are trying to quickly react to new ways of working, not just to providing business continuity but also to protect their most valuable assets, i.e. their employees and their families.

Earlier in the year, when the spread of this dangerous new virus was largely confined to China, (who by then had 2,744 confirmed cases and 80 deaths), it was compared by many to the 2003 SARS outbreak which claimed 800 lives and which had a short-lived impact on the economy. In a report from Cazenove Capital³, it was stated that “the virus could be a source of potential disruption over the coming months” and “according to Piya Sachdeva, an economist at Schroders” ... “If the outbreak continues for a significant length of time, the levels of disruption will negatively impact trade partners, especially the rest of Asia, Australia, and potentially Europe.” RBC⁴ also reported at the end of January that they “don’t think the outbreak warrants making major changes to investment portfolios for long-term investors. But we would refrain from putting new money to work in equities, particularly in emerging markets, until at least the number of new cases and fears surrounding the spread of the virus have peaked.”

Two months later, on 31st March 2020 China reported 81,518 cases; 3,305 deaths and fortunately, 76,052 people had recovered.

Unlike SARS which was largely concentrated in China, COVID-19 has spread rapidly across the globe, it is now a global pandemic as declared by the World Health Organisation (WHO). Confirmed cases of coronavirus are expected to peak globally in April/May 2020. The global economy is expected to go into severe decline and a deep recession. Governments and banks are doing whatever they can to ensure businesses and individuals make it through the pandemic and are then available to contribute to the recovery process; “we are already seeing an aggressive policy response across the world to shore up businesses and workers, maintain liquidity in markets and inject stimulus to create the necessary conditions for a more robust recovery from this shock to the global economic system”.⁵

³ Cazenove Capital, Coronavirus outbreak: tracking the economic and financial market impact

⁴ RBC Wealth Management, Will the coronavirus infect markets and the economy? 30/1/2020

⁵ Morgan Stanley, Coronavirus: Recession, Response, Recovery, 25/3/2020

Markets took the virus in their stride – until the recent spread beyond the borders of China



Source: Refinitiv Datastream

Reaction and reports appear to have changed by early March. McKinsey⁶ suggest that “Wealth management firms face three key challenges: market volatility, operational risk, and increased reliance on digital channels”. Does the reaction of the private client present a fourth challenge? Schroders⁷ were now reporting that the accelerating growth of coronavirus had brought about a “risk of a more substantial slowdown” with investor attitudes changing. The spread of the virus, its volatile impact on global markets, governments and central banks are being very closely monitored, prompting wealth management providers to continuously reassess their risk exposure. Forbes⁸ reported on 10th March 2020 that “the 10 richest billionaires in the world have lost \$38 billion” whilst other high net worth individuals (HNWIs) have also lost billions collectively as world markets have fallen in response to the global pandemic.

The performance and behaviour of wealth managers is key

The following day, it was estimated that approximately nine trillion dollars had been wiped off global stocks⁹ causing US Treasury Rates to drop to record lows, “investors are very concerned about future growth in the economy”. Wealth managers are being inundated with requests for guidance, with some reporting call volumes over 30 percent higher than expected at this time of year.¹⁰ Investors are anxious, they’re frightened, they’re worried, they are unable to meet with advisors face-to-face and are having to discuss the situation

⁶ McKinsey & Company Financial Services, Wealth management in Asia: Navigating the impact of coronavirus, March 2020

⁷ Schroders, Coronavirus: markets take fright - what lies ahead? 6/3/2020

⁸ Forbes, How to win against coronavirus: wealth managers take their positions, 12/3/2020

⁹ Capco Intelligence, Impact of Coronavirus (COVID-19) on wealth and asset management, 11/3/2020

¹⁰ Financial Times, Wealth managers field onslaught of calls from investors spooked by virus, 19/3/2020

with them remotely; those who are in remote locations can have difficulty with good internet connections, making communication even more arduous, especially so for the older generations. This is a clear opportunity for wealth advisors to reach outside the box, to show they know and care about their clients; one office for example has arranged food deliveries and sent jigsaw puzzles to elderly clients in self-isolation.

How companies and individuals respond to unprecedented, uncertain and stressful events “can shape employee, client and public attitudes far into the future” according to PWC¹¹. One of five emerging themes¹², communication, was deemed to be key at this uncertain time; wealth managers have a responsibility to reassure their clients, help them remain calm and “make them feel financially stable” and focus on the long-term goals of their investment portfolios; they “have an opportunity to demonstrate their value and mitigate the reactionary instincts of their clients”. The emotional reaction of private clients is frequently mentioned, “the greatest danger to a long-term investor at times like these is not what happens in the world outside, but what happens in their own mind”. SJP¹³ reported that they will be monitoring the situation closely, whilst they are unable to control the global markets response to this pandemic, they expect their fund managers to remain calm and “have the intestinal fortitude to maintain a long-term perspective”.

Businesses who have been slow to adopt digital communications and remote ways of working will find it difficult in the current climate to secure trust and effective communications with clients. The closure of many countries' borders, travel restrictions and social distancing etc. may not only impact on the ability to maintain good professional relationships with existing clients and potentially attract a greater share of wallet, but also on the ability to onboard new clients.

Opportunities to cash in?

Forbes¹⁴ reported that it was not all negative. Such pandemics also bring about opportunities. Pharmaceutical companies stand to do well out of such situations, with some making millions; four Chinese billionaires “owe their wealth to pharma or healthcare companies”. Schroders¹⁵ also indicated that this was a possibility, “A few companies might even be able to benefit from the situation (for example, companies working on potential treatments).” Supermarkets and grocery stores will have seen a significant increase in sales with consumers panic-buying and over-purchasing. This is likely to be short-term. “Others are hoping to benefit by shorting (betting against) certain stocks.” Knight Frank’s Wealth Report suggests that one in five ultra-high net worth individuals (UHNWIs) were already

¹¹ PWC, How COVID-19 is affecting the asset and wealth management industry

¹² Capco Intelligence, Impact of Coronavirus (COVID-19) on wealth and asset management, 11/3/2020

¹³ St. James’s Place, Coronavirus - market context, 13/3/2020

¹⁴ Forbes, How to win against coronavirus: wealth managers take their positions, 12/3/2020

¹⁵ Schroders, Coronavirus: the views from our private assets experts, 30/3/2020

moving their money into safer investments, e.g. gold, cash and property before the world was engulfed in coronavirus.

Business Continuity

Most wealth management companies were in a position to react fairly swiftly to the global pandemic, they had business continuity plans in place although the majority were not prepared for the speed and unforeseen disruptions of this pandemic. Measures were implemented to protect their workforce as well as business continuity. Employees were asked to work remotely (e.g. from home) or on shift patterns to stagger and reduce the number of people in offices. However, Schrodgers¹⁶ do speculate that this may “prompt companies to rethink their office space requirements and whether they can be used more efficiently” post pandemic; they do emphasise nevertheless, that they would advocate that “offices continue to be the best place for communicating with colleagues, meeting clients and promoting company culture”.

Consideration also needed to be put in place in the event of key personnel not being available due to illness, quarantine, or worse. Relationship managers can be essential here as lack of continuity or contingency for meeting client needs may result in client dissatisfaction and a perception of bad service. Digital systems require the highest level of security especially when individuals are working remotely and the risk of cyberattacks potentially intensify.

When will we recover?

Morgan Stanley¹⁷ reported that an aggressive policy response is in evidence across the world, “policymakers around the world have mounted a vigorous defence”, most notably in China, the G4 nations-euro area, Japan, the UK and the US. Many central banks have eased monetary policy.

PWC¹⁸ share three key points to highlight that we are in an improved position now than we were a decade ago:

- Today’s financial system is far more resilient
- Many consumers are better prepared
- The damage is likely to be more contained

“Now is a time to stay calm and make level-headed decisions.”

¹⁶ Schrodgers, Coronavirus: the views from our private assets experts, 30/3/2020

¹⁷ Morgan Stanley, Coronavirus: Recession, Response, Recovery, 25/3/2020

¹⁸ PWC, How COVID-19 is affecting the asset and wealth management industry