Will Covid-19 derail my retirement plans?

As per Coroconnect from Coronation Asset Management, listed assets around the world sold off aggressively over the past three weeks as it became clear that the Covid-19 virus has been exported around the world, dashing hopes of quick containment as was the case in previous coronavirus outbreaks (SARS in 2003 and MERS in 2012). The scale of the sell-off is historic and will define 2020 in the same way that the Global Financial Crisis defined 2008, the rand crisis and 9/11 defined 2001, and Asian financial contagion defined 1997 and 1998.

The primary response in the epicentres of the disease remains focused on containment, to slow the spread of the virus and reduce stress on health care systems. Over time, the focus will shift to mitigation as a combination of antiretrovirals, vaccines and herd immunity make humanity's ability to cope with the additional disease burden more resilient. The key mechanism of containment is social distancing, which includes self-isolation, restriction of movement, closure of public spaces such as schools, cancellation of events and, at the extreme, the full quarantine of affected populations.

This approach clearly has significant economic consequences, which may last for a protracted period. To counterbalance this, governments around the world are implementing fiscal stimulus measures to offset some of the adverse economic effects, aimed at supporting both individuals and firms. Market volatility will remain elevated while significant uncertainty remains about both the spread of the virus and the efficacy of humanitarian and fiscal countermeasures. As we wait for the facts to solidify, our investment managers are monitoring the potential impacts, and assessing the associated risk and opportunity sets closely.

This external shock arrived at an unfortunate moment for South African investors, who are already under pressure as a result of disappointing returns from local growth assets in three of the past five years. We understand that this additional disappointment will make it increasingly hard for investors to remain patient and committed to their long-term investment plans. In times of stress, the natural response is to truncate your time horizon and take immediate action to avoid the pain caused by a paper loss in your portfolio.

Unfortunately, this understandable reaction can cause even more injury later. If there is one lesson taught by past crises, it is that markets eventually recover, with the period of dislocation presenting an attractive buying opportunity for quality assets that were indiscriminately sold by weak holders. Note that the start of the recovery will not make the news headlines.

What should you do?

Absolutely nothing! Do not allow human emotion to destroy your wealth and derail your investment strategy. As long as you have a well-defined investment strategy, sit back and allow the managers to do what they are trained to do to achieve the returns necessary to meet your long terms goals. Together with our fund managers, we have navigated our client's capital through many bouts of turbulence. This too shall pass.