AIC investors confidence research: Between a rock and a hard place

Tuesday 14 February, 2017

Brexit and Trump presidency top investor concerns, but low interest rates continue to drive investors to stock market

- **Quarter of investors increasing stock market exposure - same as last year**
- **Two fifths of investors not planning to use their ISA allowance this tax year – up from one fifth last year**

Whilst the FTSE 100 had a flying start to the year, hitting several record highs, it seems that active investors do not necessarily share this exuberance, according to research published today by **The Association of Investment Companies (AIC)**.

The number of investors saying they will **not use any** of their ISA allowance has increased significantly over the course of just a year, from 21% in 2016 to 38% this year - almost doubling.

Annabel Brodie-Smith, Communications Director, Association of Investment Companies (AIC) said: “After such a strong start for markets this year, it’s surprising investor confidence is unmoved from where it was a year ago, when markets were much more volatile. But with Brexit concerns, the Trump presidency and worry over a market crash hanging heavy in many investors’ minds, it is perhaps easy to see why investors remain cautious.

“However, none of us can predict the markets’ next move and who would have thought, at the start of 2016, that markets would have had such a strong year? Investors need to take a long-term perspective and hold a diversified portfolio. Despite the tough market conditions during the financial crisis, the average investment company is up 107% over ten years. Cautious investors may like to consider regular investing, which can smooth out some of the highs and lows of the stock market, whilst not missing out on long-term gains along the way.”

Investors holding tight

The number of active investors planning to increase their stock market exposure over the next six months is the same as it was a year ago (25%), when markets were having a significantly more torrid time. This compares to a high of 49% two years ago, with investor confidence in the stock market halving since then.

Instead, investors continue to remain cautious, with 71% planning to ‘hold’ rather than buy stock market investments, although the number of active sellers has significantly decreased and is half (4%) in comparison to last year (8%).

Low interest rates

Of the quarter of investors who were planning to increase their stock market investments, it was the low rates of interest on cash deposits which was by far the greatest motivator (30%) as investors seek alternatives, followed by general optimism (12%), and the fact that they have more money available now (11%).

Brexit and Trump jitters

The most commonly cited financial worry amongst investors was that uncertainty over Brexit negotiations may slow economic growth (18%), followed by a possible stock market crash (13%) and the Trump presidency (12%). These were followed by concerns about poor returns on cash deposits (9%) and rising inflation (8%).

UK still in favour

Despite concerns about the impact protracted Brexit negotiations might have on the UK economy, the UK was still by far the favoured region amongst active investors (21%), which was slightly down on recent years (26% in 2015, 24% in 2014). This was followed by Emerging Markets (9%), China (7%), North America (6%) and Asia Pacific excluding China and Japan (6%). For the first time, Technology was the

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most favoured sector amongst active investors, with 15% of investors backing the sector. In second place, in keeping with last year, was pharmaceuticals (9%). In third place was smaller companies (7%), which was last year's top sector (22% in 2016).

ISAs – cash is king, but equities still popular

Some 25% of investors this year say they are only planning to use the cash element of their ISA allowance, and this was level pegging with a year ago, with cash remaining king for nervous investors. That said, some 18% of investors plan to use only the stocks and shares element of their ISA, down on 30% last year, whilst 17% will use both cash and stocks and shares, similar to 19% last year.

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