VIEWPOINT

COLLECTIVE FINANCIAL PLANNING LTD

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.

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Should we be concerned about rising inflation?

Most economists expect inflation to pick up over the next few months as lockdown restrictions ease and shops and restaurants reopen. But is this a cause for concern?

As lockdown measures begin to lift, financial markets are making their adjustments in anticipation of a rise in inflation, with bond yields picking up (meaning prices have fallen) and stock markets rotating from defensive sectors into cyclicals.

What is inflation?

Put simply, inflation measures the change in the prices of goods and services. If it rises then it takes more of our cash to buy things. We all experience inflation in our daily lives, from filling up our cars with fuel, buying groceries or using public transport.

In the UK, the official measure of inflation is the Consumer Prices Index. It's published by the Office for National Statistics (ONS), which monitors what people are spending their money on, using a basket of everyday goods and services.

The ONS adjusts the basket from time to time to reflect our changing spending habits. During lockdown, there was a shift with products like hand sanitiser and hand wipes being added, and items like white chocolate and ground coffee dropping off the list.

Inflation is all an illusion… or is it?

It's easy to ignore the impact of inflation on your finances. Most people's spending habits this month compared with the same time a year ago would probably stick to the same patterns – regardless of inflation at the time – because the differences seem small and therefore wouldn't affect the way they spend.

If you're trying to save money though, it's worth remembering that with interest rates currently lower than the rate of inflation, the real value of any cash savings is falling. In other words, the cost of living is increasing at a faster rate than your savings are growing, which means the spending power of your money is actually falling.

How will inflation affect investments?

Many people in the UK are preparing to spend the cash they've saved over the past year when the lockdown ends and shops, restaurants and entertainment venues reopen. Activity is likely to return to pre-pandemic levels and the expectation is that inflation is likely to pick up. Some economists are worried about inflationary pressures. In addition to this is the effect of government stimulus packages on the economy, which would provide another tailwind.

However, experts believe it's likely to be a short-lived phase and should not pose a longer-term challenge to fixed income or equity markets. The Bank of England does foresee inflation rising towards the 2% mark, but believes it will be a temporary phenomenon. Continuing deflationary forces like ageing demographics, technological innovation and global supply chains cast doubt over predictions of a new era of inflation.

Ultimately if you want to beat inflation in terms of finding some good returns on your savings, investing is the best option at the moment – due to cash savings rates being at such low levels.

One of the best ways to ensure your investments are given the strongest opportunity to navigate the effects of inflation on financial markets is through a global, multi-asset portfolio that's actively managed by a professional team of investors. Speak to a financial adviser to find out more.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

OW3380 Exp. 04/06/22

2021 Outlook
The healing process

Following a particularly challenging year for investing, we've identified five themes we'll be watching closely throughout 2021.

The coronavirus pandemic made conditions particularly challenging for investors throughout 2020. After a year when everything seemed to change, what's likely to drive the global economy and financial markets in 2021?

These are the five themes we believe will influence our investment decisions the most as we navigate the evolving environment..

1. The world economy is in recovery mode.

We believe the pandemic will recede this year and the global economy will heal gradually. To help understand how industry sectors are likely to perform, we can divide them into three segments that:

— benefited from the lockdowns;

— suffered and are vaccine dependent; or

— were only partially impacted but sensitive to the policy response.

From a geographical perspective, some regions have contained the spread of the virus more effectively than others and are bouncing back more rapidly. Many Asian countries have avoided prolonged lockdowns. With the recovery heading in the right direction, we're confident about the outlook for company profits and stock market returns.

2. Inflation is absent but there are risks.

We expect inflation to pick up in 2020 but not dramatically. The pandemic has forced unemployment higher and created spare capacity in the economy. those who have saved most during the pandemic are more likely to reduce debt or top up their pensions than spend.

We do not expect the tide to meaningfully turn for the assets that have benefited from low inflation – notably government bonds and growth companies. With yields already at record lows, new buyers of bonds receive only a small income and the potential for capital gains appears slim. Similarly, in equity markets, we believe better investment opportunities lie outside growth companies.

3. Globalisation has become more regional.

Although the health crisis has challenged globalisation, there have been some developments in regional integration. For example, Australia, New Zealand and 13 Asian countries, including China, signed the Regional Comprehensive Economic Partnership in 2020. In the US, Joe Biden's economic team has indicated it wants to engage with the rest of the world in a more cooperative way.

From an investment perspective, we believe Asian emerging markets are best positioned to prosper in this environment. Many are increasingly self-reliant, moving away from exporting goods to developed markets. They offer a rich source of successful businesses across a range of sectors, from luxury goods to innovative technology and financial services companies.

4. Tech firms face regulatory challenges.

The companies whose fortunes have been most obviously lifted by the pandemic conduct their business over the internet. While they have the potential to keep growing their earnings by entering new markets and launching innovative products and services, policy and regulation can have a significant impact on their business models.

Another issue for the large firms is market saturation and whether they have enough room to continue growing in order to justify their valuations and the potential for further share price gains. However, we continue to believe the technology sector provides opportunities to invest in companies with disruptive business models that are revolutionising their industries, and addressing changing consumer needs.

5. Building back better

The pandemic has put environmental concerns and social inequalities in the spotlight, and policymakers have responded by declaring the recovery can improve the world by "building back better". For example, the EU has earmarked around a third of its €750 billion recovery fund to fighting climate change. Other regions have made similar commitments.

There are lots of ways we can gain exposure to companies that have the potential to benefit from government spending packages and policies designed to support a sustainable recovery. Although we don't select the investment managers in our portfolios based on their ESG credentials, we do expect that they will integrate these risks and rewards into their processes.

If you have any question about what these themes might mean for you please get in touch.

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Past performance is not a reliable indicator of future performance and should not be relied upon

OW3217 Exp. 09/03/2022

Can your pension sustain your retirement?

Working out how long your pension pot will need to last – as life expectancy rises – is worth thinking about sooner than later.

The lockdown caused many people to reassess their lifestyles, which for some meant choosing early retirement. But what retirees have found is that pension pots are not matching the period of time needed to enjoy a comfortable life.

Life expectancy is going up. The Office for National Statistics offers an online calculator which gives an estimate of life expectancy – and with it an idea of how many years people will need their pensions to sustain them.

What's your number?

The 'Class of 2021' report from Standard Life Aberdeen lays out how much value an average pension pot needs – around £366,000 if you multiply the average annual amount retirees surveyed said they would spend (£20,000) by 20 years of post-retirement time. A third said they had less than £100,000 saved.

Retirees need more than they think

The survey reported that two thirds of retirees were at risk of running out of money post retirement. Along with people living longer (on average, people aged 55 today will live to their mid-to-late 80s) there is the issue of rising inflation which raises the cost of living as years go by. Volatility in the investment markets also adds to the concern for people approaching retirement when it comes to pensions.

How to plan for the years ahead

Those surveyed did have plans to tackle this issue, however. Half of the those surveyed aimed to reduce the amount of money they spent on a day-today basis in order to save for retirement. Other considerations include downsizing their home and seeking part-time work after retirement in order to generate an income.

There is concern among almost half of those surveyed about being financially ready to finish working in the coming year. Yet many are aware of the need to be prepared when it came to their finances post-retirement, making any necessary adjustments – ideally with help from a financial adviser.

Keeping track of workplace pension plans and thinking about consolidating them into one pot might be a good place to start planning towards the goal of making your retirement as financially worry-free as possible.

Our financial advisers can help you review your pensions and advise on how to make the most of your pension.

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OW3512 Exp. 12/08/22

Investment Update

Markets reflect uncertainty over Delta variant

The pandemic continued to unsettle global financial markets during August.

August turned into a month of highs and lows for markets, especially in Europe. There was positive news that the euro area's economy grew by 2% in the second quarter, which was then countered by a heavy fall in share prices, with the FTSE 100 in London, Frankfurt's Dax and the Europe Stoxx 600 all dropping more than 2%. Causes for concern in Europe centred on fears of a new wave of Covid-19 as well as a reduction in economic stimulus measures.

US Federal Reserve signals slowdown

In the US, markets were struck in August with fears of a slower economic rebound from the pandemic, after the Federal Reserve (Fed) signalled that discussions had started on when to start tapering its fiscal stimulus programme. As a result, there were heavy falls in stocks and commodities, with investors unsure about monetary policy and the slowdown in growth globally, all of which dampened sentiment.

At the annual Jackson Hole symposium, Fed Chairman Jay Powell did point to the strength of economic rebound in the US so far; underlining the Fed's belief that a gradual withdrawal of stimulus will not adversely affect the US economy.

America's own economic rebound slowed to its lowest level in eight months in August. However, the US job market showed strength, with over 900,000 new jobs added in July, along with the unemployment rate dropping to 5.4%.

Growth for the UK economy

The Office for National Statistics reported that the UK economy grew by 4.8% in the second quarter, following the easing of lockdown restrictions. Along with increases in retail trade, food services and hotel accommodation, there was an increase in construction and production output during the period, too.

Emerging markets experience mixed fortunes

The Chinese government clamped down on its tech sector in August, announcing its plan to ban unfair competition among internet companies. Although surveys have suggested that Asia's economic recovery is slowing, South Korea's economy in 2021's second quarter was larger than at the same time in 2020. However, China has suffered from renewed travel restrictions and natural disasters including severe flooding – which affected rates of output, retail sales and investment, slowing its economic recovery.

After a successful summer Olympics amid the pandemic, there was further cause for celebration in Japan – its economy grew in the second quarter, beating forecasts and boosted by consumer spending and investment. However, the country's recovery is behind other large economies, which is largely due to the slow vaccination rate slowing a full reopening.

Big profits for big oil

The high price of oil in the last quarter boosted energy company profits during the period, even allowing for the ongoing shift into greener energy sources. ExxonMobil, for example, registered a net profit of $4.7 billion in the second quarter, following a loss during every quarter of 2020.

Elsewhere, the auto giant Toyota announced it will cut production by 40% in September due to the shortage of semiconductors around the globe. Most of these chips are made in Asia, but the Delta variant has affected production.

Do you have ‘cash in the attic’?

Wherever you go, you’d be hard pressed to find a house without at least a little bit of clutter. From the kids’ old teddies (well, they might want Ed the Ted for their own children, you see) to receipts from the 1980s (they might take it back after 40 years), attics and basements across the UK are full of what optimists might call ‘keepsakes’ and what others would probably call ‘junk’.

But is it always? If Flog It or Cash in the Attic are anything to go by, our houses are literal gold mines of undiscovered treasures, just waiting to be found amongst the everyday bric-a-brac.

What could your attic hold?

Over the years, some truly priceless artefacts have been uncovered in the homes of unwitting residents. Here’s a list of some of the oddest – and most valuable.

An ‘old box’ that was more than it seemed

A battered looking wooden box, used as a TV stand by an elderly gentleman, was discovered upon his death when his house was being cleared out. This unassuming item turned out to be an ancient Japanese Mazarin Chest, and is valued at a staggering £6.3m.

Rare rugby memorabilia

A treasure trove of extremely rare rugby kit and memorabilia from the turn of the 20th century (including an England shirt from the first ever game in Twickenham in 1910) was found languishing in a dusty box by the great grandson of rugby player and WWI hero Charlie Pritchard. The priceless items are currently on loan to the World Rugby Museum in Twickenham.

Priceless Indian artefacts

The ancestors of a British army officer were amazed to discover a cache of Indian arms taken from a Sultan’s palace at the turn of the 19th century. Wrapped in newspaper and discovered in a dusty Berkshire attic, the weapons, including an ornate, gold-encrusted sword and a gun believed to be the one fired by the ‘Tiger of Mysore’ himself in his final stand against the British in 1799, are expected to fetch millions at auction.

Time for a clear out?

If you’re feeling galvanised into a spring (or winter) clean, then be careful what you chuck out! You too could be sitting on a valuable treasure.

Don’t be underinsured

Have you reviewed your home contents insurance policy and make sure you’re covered for everything you own – including the contents of your attic and basement.

Get in touch with us and we can help find a contents insurance policy that suits your needs. In the meantime – we’re off to watch Antiques Roadshow!

OW3044 Exp. 19/11/2021

How to plan for inheritance tax

Following the news that thousands more people are expected to pay the standard 40% inheritance tax this year because of the effects of the pandemic, we explore some of the ways to navigate the complexities of inheritance tax.

The complex laws around inheritance tax (IHT) caught many people off guard during the Covid-19 pandemic.

Along with the often-sudden loss of a loved one came the issues arising from IHT on gifts passed down to children and grandchildren.

This tax year marks the latest in a series where the number of people being charged IHT on gifts has increased.

Since 2009, beneficiaries have paid 40% IHT on estates worth more than £325,000.

Inheritance tax facts

Following the Budget in March, it was announced that thresholds will remain the same for IHT until 2026:

For single people, the threshold is **£325,000**.

For those who are married or in a civil partnership, the threshold is **£650,000**.

Couples can also pass on their assets (like an owned home) worth up to **£1 million** in total if they leave it to children or grandchildren.

Gift your way to less inheritance tax

There are ways to avoid passing on a large IHT bill to your family, whether it's through gifting or charitable donations:

— You can give away assets or cash worth up to £3,000 a year (known as the annual exemption) with no IHT to pay regardless of the total value of your estate when you die.

— You can give as many gifts of up to £250 to as many people as you want each year – although not to anyone who has already received a gift of your whole £3,000 annual exemption. To make use of this exemption, it's important to keep accurate records.

— If you are married or in a civil partnership, you can pass on your entire estate to your surviving spouse, tax free, when you pass away. Things could become more complicated, however, if your spouse was born in a different country.

— If you give a gift – of any amount – and live for a further seven years after the gift has been given, the beneficiaries will not have to pay any IHT if you pass away after that seven-year period.

— Leaving money to a charity means it's free of IHT and could cut the tax rate on the remaining amount in your estate.

Transferring to a trust or pension

Setting up a trust to transfer some of your estate into for the benefit of your grandchildren is another way to reduce the IHT liability on your assets. However, the trustees could still encounter some income or capital gains tax.

While it may not be the most obvious choice, setting up a pension for your children or grandchildren could be a tax-efficient option. The fund will transfer to them when they turn 18 but they won't be able to access the money until they're much older.

As with anything tax-related, the rules are especially complex when it comes to where your inheritance goes and how much your beneficiaries will end up receiving. That's why it's so important to speak with your financial adviser to review all your options and find the most efficient ways to pass on your wealth.

To learn more about how to make the most of your money this tax year and for more information about inheritance tax and your tax-free allowances, speak to your financial adviser.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen

The perks of protection

What support do insurers offer after the event?

Illness and bereavement help.
Many providers give free access to services offering practical and emotional support for those left behind after the death of the policyholder.

Rehabilitation.
Insurers usually offer back-to-work support services, including physiotherapy, careers guidance or advice if you choose to go self-employed. If you're returning to work following a mental health issue, providers will continue to cover counselling sessions for a set period of time.

As well as peace of mind, many insurance providers offer additional benefits that you may not know about.

Whether we're crossing the road or getting on a plane, we encounter risks every day. For many of us, life has felt more uncertain than ever over the past year as we continue to deal with the coronavirus pandemic. Although we can't always control what's happening in our lives, we can plan for the unexpected.

By taking out a protection policy, you can safeguard your family's finances if your situation changes. The main types of protection include:

- Life cover – pays out a lump sum if you die
- Health insurance – pays medical costs at a private hospital or private ward
- Critical illness – pays a tax-free lump sum if you're diagnosed with a major illness
- Home contents and buildings – covers your home's structure (including fixtures and fittings) and contents (furniture)
- Income – pays out if you can't work due to illness or injury

As well as peace of mind, protection policies often come with added extras. We've highlighted examples of some of the perks you could receive when you take out a policy, even if you don't make a claim.

Welcome gifts

When you sign up for a protection policy, some providers offer a welcome gift. For example, health insurers sometimes offer gadgets like an Apple Watch to help you track your activity – with some even offering a discount based on the amount of exercise you do each month.

Discounts

Many health insurers offer discounts on gym memberships and weight-loss programmes to help you embrace a healthier lifestyle. Some also offer you the option of taking a health check to reduce the amount you pay each month.

It's worth noting that when you take out a protection policy, your provider is likely to offer you discounts on other products such as pet or travel insurance.

Additional healthcare options

Some health insurers now cover complementary therapies such as osteopathy and acupuncture, giving you more treatment choices. In addition, counselling services are now included in most health insurance policies and many also give you the option to upgrade your hospital room if you need treatment.

Will writing

Some providers of life insurance give new policyholders the opportunity to draw up a will free of charge.

Cover for children

Many critical illness plans include free cover for dependent children.

Whatever type of protection you're looking for, get in touch and we can help