

VIEWPOINT

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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 cyclical.

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.

Investment Update

Inflation rises, along with commodity prices

The combined economic effects of stimulus measures, inflation and increased spending all contributed to an eventful month.

In May, vaccine rollouts gathered pace and pandemic-based restrictions began to lift in many countries. However, a new wave of cases in India raised concerns worldwide. Despite reports that the UK economy shrank in the first quarter compared with the previous three months, the level of employment increased, although it remains below pre-pandemic levels. Inflation doubled to 1.5% in April, and the next stage of reopening the country took place in May, with indoor dining allowed and air travel to a 'green list' of countries. America saw its GDP grow by 1.6% in the first quarter, bringing it back almost to where it was before the coronavirus struck. Household spending on imported goods from China especially soared – perhaps as a result of stimulus checks and the reopening of services following the vaccine rollout implemented by the new Biden administration.

Inflation is picking up

With increased spending came the news that the US inflation rate soared to 4.2% in April, which is higher than expected, and cause for concern around supply, with bottlenecks pushing up costs for manufacturers and consumer prices. The stimulus checks are thought to account for some of the rise, and experts also believe a boom in consumer demand is behind it too.

The Federal Reserve's position is that inflationary pressures are temporary, and policymakers believe it will fall back down towards the end of the year. It's not seen as something that will force central banks to increase interest rates any time soon.

Commodity prices are rising

Commodity prices in May rose, with the price of iron ore and copper reaching record highs. Copper – seen as a bellwether for the global economy – rose to over \$10,000 a tonne, surpassing the previous peak set in 2011 (during a commodities boom.) Demand for copper comes from China and the green transition in rich countries: it's used in a range of industries, from electric vehicles to wind turbines and solar panels.

'Dr Copper' is closely watched in markets because of its ability to diagnose important shifts in the world economy. Plans for fiscal stimulus in America and Europe lean towards the 'greening' of economies, favour copper demand. As a pliable, cost-effective conductor of heat and electricity, copper is a vital input to green tech.

There is concern that a green energy bubble could form due to the large investment in the sector (like wind, solar or hydro industries.) These companies have stretched market valuations – and may not be earning as much as their share values suggest.

Bitcoin in freefall following Musk snub

The walk-back from Elon Musk in his support of Bitcoin, underlined concerns around the feasibility of cryptocurrencies as a stable investment. Musk – previously an outspoken supporter – announced his company Tesla would not be accepting Bitcoin as payment for its vehicles.

His retraction followed news of the environmental effects from the electricity used to mine the currency. The result was a huge drop in the value of Bitcoin (and other digital currencies) – which continued its plummet days after the announcement.

Time to consolidate your pensions?

Employer pensions can accumulate as we change jobs, and it's easy to lose track of how much each one contains. We explore what you need to know if you're thinking about consolidating your pensions.

When you leave a job, it's easy to forget about the workplace pension you might have had there. With the average person having several jobs during their lives, along with the 2012 introduction of auto-enrolment for employer-based pensions, it's not surprising that many of us have more than one pension to our name.

Whatever the situation with your workplace pensions, the first thing to do if you're thinking about consolidation is to speak to a financial adviser. We can help you figure out the best solution for your individual needs.



Tracking down your old pensions

All pension providers are obliged to send members of their schemes annual statements to keep them updated on how much their pension contains.

The Association of British Insurers (ABI) estimates 1.6 million pension pots worth billions of pounds are forgotten about due to people just moving home. So it's vital to write to your old pension providers to let them know if your address changes.

The government is in the process of launching a dashboard where all pension providers will be able to input member details, giving customers the ability to see their pensions in one place. But the process will take some years for all providers to supply their data.

Consolidating your pensions

As to whether you should consolidate your pensions into one pot, the first step should be to check the small print. If you have an older pension (around 20 years or older), you could lose some of its benefits if you transfer and be left with steep exit fees taken out of your pension amount.

Unlike older pension schemes, the newer 'defined contribution' pensions are more common and less likely to be affected by exit penalties if you want to transfer them into one place. The funds are invested, which makes consolidation an attractive option.

It's worth noting that if you're still paying into a defined contribution scheme and want to withdraw from it, the amount you can pay in and claim tax relief on could reduce.

On average, management fees for workplace pensions are around 1%. Newer pensions could benefit from tax benefits that older ones don't come with, so it's always worth checking each policy individually and get some advice from a financial adviser.

Leaving older pensions where they are

Along with exit fees and tax privileges, pre-2006 pensions (that were not affected by tax changes established in 2006) could have benefits like guaranteed annuity rates (promising a guaranteed income after retirement), which could be lost if transferred to another pension pot.

Final salary scheme pensions are probably best where they are, too, due to the nature of their payouts when you retire (based on what you earn at retirement.)

Some people opt to create a self-invested personal pension (SIPP), which lets them choose where their pension money is invested. This is beneficial to those who want to put their money into sustainable funds and make ethical investment choices.



Business Protection

You need it more than ever

Prior to lockdown, over half (51%) of businesses had some form of debt, owing an average of £176,000 each – and yet just 20% used an insurance policy as security.

To add to this already significant issue, bank lending to struggling businesses via government-backed COVID-19 loan schemes reached nearly £52bn as of mid-August – meaning that UK businesses are more heavily indebted than ever.

Business loan protection

Business loan protection provides funds to repay a business loan, commercial mortgage, or a director's loan if one of the company's owners were to die or be diagnosed with a serious or terminal illness. Essentially, this type of insurance comprises a life cover or critical illness policy taken out on the life of the business owner or key person, with the payout ensuring the business can pay its debts should the worst happen.

Most lenders require some form of security when lending to businesses; often, business owners will use their own personal wealth (e.g. their property) as security. So, in addition to their business suffering if they were to unexpectedly die or become seriously ill, their family could face serious financial hardship or even lose their home.

Director's loans

It is common for businesses to have a director's loan account, through which the director can:

- Lend money to the business to fund initial start-up costs or see it through cash flow pinch points, for example;
- Borrow money from the company that is not classed as salary, dividends or expense repayments.

According to research from Legal & General, the average director's loan totals £169,000 – and yet well over a quarter (28%) of businesses are unaware that director's loans must be repaid upon death. This means the business could collapse if there is no insurance policy in place as security.

Loss of a key person

A staggering 52% of businesses say they would cease trading within a year if they lost a key person. Losing a key member of staff can have a huge impact on the business in terms of lost profits, poor cashflow and, potentially, a change in its creditors' attitudes to outstanding debts. That's where business loan protection comes in – it can help alleviate financial pressure by paying off the company's debts and enabling the business to get back on track.

As with all insurance policies, conditions and exclusions will apply

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Turning ‘generation rent’ into ‘generation buy’

New 95% mortgage scheme to help first-time buyers

Lenders are now offering a government-backed 95% mortgage scheme to help more first-time buyers onto the property ladder.

The government is hoping to turn ‘generation rent’ into ‘generation buy’ with the help of a 5% mortgage deposit scheme launched on 19 April.

Following the outbreak of the coronavirus pandemic, many lenders withdrew low-deposit mortgages. In just under a year, the number of 95% mortgages available to first-time buyers fell from 391 to just three. It’s hoped the scheme will give lenders the confidence to offer low-deposit mortgages again by taking on some of the risks involved.

What is the 5% deposit scheme?

First announced in this year’s Budget, the programme offers first-time buyers or current homeowners the chance to secure a 95% loan-to-value mortgage on homes worth up to £600,000. It’s available on both new-build and existing properties.

The government hopes the scheme will provide an affordable route to home ownership by helping people who may be renting but are unable to save for a deposit.

Buyers will still only be able to borrow in proportion to their income, typically a multiple of 4.5. As a result, the scheme will particularly benefit buyers in lower-value housing markets such as northern England and Scotland.

What does loan to value mean?

Loan to value is the percentage of the property value you’re loaned as a mortgage – in other words, the proportion you’re borrowing. For example, if you have a 95% mortgage on a house worth £200,000, you would put down £10,000 (5%) of your own money as a deposit and borrow the rest (£190,000).

What’s the catch?

There are a few conditions that you’ll have to meet under the scheme. You’ll need to:

- Buy a property to live in – second homes and buy-to-let properties aren’t eligible.
- Apply for a repayment (not interest-only) mortgage
- Pass standard affordability checks, including a loan-to-income test and credit score assessment.

It’s worth considering the fact that the higher proportion of the property price you borrow, the higher the amount of interest you’ll repay on your mortgage. So it might be good to take a step back and figure out if you can save for a little longer and borrow less.

Speak to your financial adviser about how the 5% mortgage deposit scheme could help you get on the property ladder.



YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE.