BIRCHWOOD INVESTMENT MANAGEMENT LTD NEWSLETTER

July 2018

It's plain sailing...

Open Banking - explained!

You've probably heard the phrase Open Banking circulated in the media recently, but like many, are not completely sure exactly what it all means. We've put together a basic guide to explain all you need to know.

Essentially Open Banking is a series of reforms that came into force from 13th January 2018, regarding how banks handle your financial information, requested by competition watchdog the Competition and Markets Authority (CMA). It sits alongside a new regulation called the second payment services directive (PSD2) which went live at the same time.

All UK regulated banks must now allow you to share your financial data, ie current accounts, credit cards and some savings accounts with other banks and authorised providers offering budgeting apps – as long as you say it's ok to do so.

It also only applies to accounts that can be accessed online and through your online banking. In principle it means you can have all your financial data in one place by connecting your bank account to a relevant app which in theory, should bring a more creative and competitive element to financial services and improved products and allow you to manage your money all in one place.

However, it's entirely up to you whether you want to share your details. If you don't you're under no obligation to do so. Any provider or bank will ask for your consent, they won't just look at your accounts so if you want to keep things just the way they are – it's your choice!

If you do decide to share your data – be aware. Check to see it's an authorised company who will be regulated by the Financial Conduct Authority (FCA), or another European regulator, and will appear on the FCA's Register (jttps://register.fca.org.uk/) and the Open Banking Directory.

They will offer two different services which require two different authorisations:

Account information services – these let you see all your accounts in one place, featuring budgeting help and recommendations.

Payment initiation services – these allow you to pay companies, including retailers, directly from your bank account rather than by Visa/Mastercard.

Please remember if you decide not to use an authorised provider, you won't receive the same levels of fraud protection. You are quite within your rights to ask what security measures they have in place, however as there is a transition period some providers won't need to be authorised until the end of 2019. This doesn't necessarily mean you'll be at greater risk – it's simply your choice whether to wait. If you have any concerns whether a third party is legitimate then please do not disclose any of your bank details until you're absolutely happy to do so.

With GDPR (General Data Protection Regulation) now in place providers will need to comply with these rules and disclose how they will use your data before you sign up. Plus if you only give consent for your current account to be viewed, the provider cannot look at a credit card at the same bank, unless you expressly confirm your permission.

Open banking - explained cont...

Some banks have previously declared you'd be liable for fraud on your account if you've shared your details with third parties however now, banks must allow you do so (if you choose to).

If you don't recognise a payment that has come out of your account notify your bank immediately, as long as you have not been "grossly negligent", they will need to refund you.

You are liable for up to £35 before you tell your bank, and nothing after you've told it so don't delay reporting any suspected fraud.

Please note though, this only applies to regulated third parties.

Whether you choose to adopt open banking or not is purely your decision. It's likely to take time for changes to become fully implemented and its success will be down to banks building trust with consumers and prioritising security.

Whilst it can enable you to manage your money in one place, check you're happy with any provider before you jump in feet first and remember you have every right to decline or wait to see how this new opportunity develops.

Lending in later life is surging

The mortgage industry is currently seeing a sharp increase in the number of lifetime mortgages giving borrowers more flexibility and choice as they get older, especially heading into retirement.

Much has already been done in terms of developing products that meet this niche but there is still a way to go in terms of ensuring borrowers' needs are met and underwriting skills are honed specifically for this market, which may require some lateral thinking.

Following the Financial Conduct Authority's recent Mortgages and Home Finance Conduct of Business (MCOB) rule changes, it's clear that the Regulator is helping support the progression of these products, in particular a retirement

interest only mortgage targeted at the more elderly borrowers. This type of lending will allow some people in their 50's and 60's an opportunity to have a better retirement and less concern over day to day expenditure.

Although lifetime mortgages do not replace the need for effective pension and retirement planning, they can certainly offer another option. Principally, product development needs to define who an "elderly borrower" is. Are they from the age of 55 years – the current minimum age for a lifetime mortgage – or those further into their 60's, who may be facing a gap between what they've paid off as part of their interest only mortgage, versus the capital they still owe.

However, this type of lending may even be offered to an even lower entry age, for example those in their late 40's, such as retired military personnel who wouldn't wish to apply for the traditional lifetime mortgage in its current guise.

The industry also needs to define when repayment of the loan will need to be called in and what the standard default position will be. Whatever the results from this debate will be, and they're likely to grow organically, the lifetime lending sector brings with it more opportunities to consider when talking to your financial adviser about planning for the retirement you truly want.

Birchwood supports the fight against cancer

Over the first May bank holiday weekend – 5th & 6th May 2018, Birchwood Investment Management got behind Donna Campbell, a former employee, as she completed the Women v Cancer Ride the night event – officially the largest female only cycling event in the UK.

Donna cycled over 69 miles, through many of London's famous landmark spots and Birchwood's financial contribution, along with those from many other friends and family, raised over £1000 with proceeds going to Ovarian Cancer UK, Jo's Cervical Cancer Trust and Breast Cancer Care.

Well done Donna!

Market Report

July 2018

Global Review

After recovering from their lows in March, global equity markets have retreated as geopolitical events have again taken centre stage. Robust corporate earnings have supported the positive outlook for economic growth but this has been undermined by the introduction of trade tariffs by the US, retaliatory measures by those nations targeted, the continued tightening of US monetary policy and the ongoing political unrest across Europe.

The International Monetary Fund have forecast that global growth will accelerate from the 3.8% recorded last year, the fastest rate of growth since 2011, as all 45 economies within the OECD expanded in unison. This synchronized growth has dismissed the prospect of recession in the near-term with central banks outside of the US Federal Reserve under little pressure to normalise monetary policy as inflation remains benign.

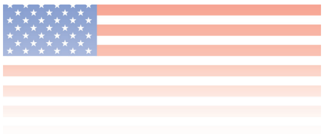
UK

Markets had been expecting the Bank of England to raise interest rates in May as global economic conditions have continued to improve. However, a weak inflation print in April, the lowest for 12 months, coupled with a collapse in economic growth, just a 0.1% expansion in the first quarter, resulted in the Monetary Policy Committee voting 7-2 in favour of holding rates.

The cost of borrowing was again held at 0.5% in June but with the Bank's chief economist voting in favour of an increase this has raised expectations of a hike in August.

The major concern for the Bank of England is Brexit uncertainty. The Committee must balance economic conditions with the success or failure of the government during divorce negotiations. The current accommodative policy would be inappropriate if the final settlement is favourable to the UK, whilst tightening fiscal policy too early would damage the recovery.

US



As promised during his election campaign, US President Trump has introduced a raft of trade tariffs designed to reduce the country's trade deficit. Initial measures against China, placing 25% tariffs on around 1,300 products, were quickly followed by tariffs on steel and aluminium imports from Canada, Mexico and the European Union.

In response, China announced reciprocal measures against \$50bn of US products, whilst the metal tariffs were countered by retaliatory measures against US farm produce and a range of industrial goods.

Strong first quarter corporate earnings and positive talks between the US and North Korea allowed global stock markets to rally in April. However, the fear of an escalating trade war and a more hawkish narrative from the US Federal Reserve on the outlook for interest rates caused equities to surrender much of these gains.

In particular, the suggestion that the US central bank would raise the cost of borrowing by an additional 0.5% this year in the face of slowing economic growth and heightened political tensions unnerved markets.

Europe

The European Central Bank eased nerves in June by indicating that interest rates in the Eurozone would be held at their current levels for at least the next 12 months. The Bank also confirmed that it would continue with quantitative easing until the end of the year. The decision was prompted by a deceleration of economic growth in the first quarter and benign inflation. Growing political unrest in Italy, Spain and Germany has also required that an accommodative stance be maintained.

A snap Italian general election has been avoided as agreement was reached on the formation of a coalition government between the anti-establishment Five Star Movement and the far right League. Both parties are euro-sceptic. In Spain, Prime Minister Rajoy lost a vote of no confidence and this is likely to result in an early general election. And German Chancellor Angela Merkel's position is becoming increasingly fragile as her coalition partners demand greater action on immigration.

Japan

Prime Minister Shinzo Abe has survived calls for his resignation following a series of scandals connected to property deals. The premier's approval rating has rebounded after charges against Japanese officials connected to the deals were dropped.

Now favourite to be re-elected as head of the ruling Liberal Democratic Party in September, Abe is likely to stay in office until 2021, thereby becoming the country's longest serving head of government.

The Japanese economy shrank in the first quarter, ending a run of eight straight quarters of expansion, the longest period of growth for over 25 years. The contraction may jeopardize a hike in sales tax planned for next year. A previous hike in 2014 triggered a large fall in consumer spending that tipped the economy into recession. Increased taxes are necessary to cover the massive quantitative easing measures undertaken by the government with a recent cut in inflation expectations fuelling opinion that an unwinding of stimulus is still some way off.

Asia

Despite US trade tariffs, Chinese President Xi Jinping has announced measures that would further open up the world's second largest economy. Increased co-operation and broader market access to the banking, securities and insurance sectors, lower tariffs on a range of imports and a strengthening of intellectual property rights were all well received. The announcement paved the way for an additional 226 Chinese stocks to be included in main global equity market indices from June.

India still lags the world in terms of economic freedom despite the efforts of the Modi government to deliver reforms. This has not prevented the country from maintaining its position as the fastest growing economy in the world with GDP expanding by 7.7% in the first quarter. This was ahead of consensus estimates that feared demonetisation and tax reforms would have a lasting effect.

Women - plan your retirement now to avoid being almost £5000 a year worse off than men...

Although women's predicted retirement incomes are forecasted to be increasing, for those ladies retiring this year, they are still expected to receive just under £5000 less than men.

A study by Prudential's class of 2018 discovered that the average annual retirement income for women is currently £16,900 compared to £21,800 for men. With minimum income standards (as stated by the Joseph Rowntree Foundation (JRF) for a single pensioner set at £9,998, one in six women (16%) will retire on less than this, as opposed to 10% of men.

Whilst we can applaud the gender retirement income gap shrinking – the average man was set to retire with £9,500 more income than a female in 2008, there is still much that women, especially those who are single without the benefit of their spouse's pension benefits, can do to ensure their retirement is not one in which to struggle financially.

In 2018 both men and women are retiring on a higher average annual wage - £2,600 more for women and £1,150 more for men, this being the highest on record, which is hugely encouraging, and women are starting to catch up. However, although auto-enrolment is having a positive impact on people saving more for their future, as contribution rates rise and some may choose to opt out, the pressure is on employers and the government to really consider how to deliver effective financial education both in and out of the workplace. For those who are self-employed (approximately 1.5m females in the UK) without the safety net of a work place pension, it is even more critical to plan ahead and protect your income as time flies the older we get!

Base rate yet to significantly effect savers' rates

The number of accounts paying returns over the base rate has dropped by 77 since the rate rose to 0.5 per cent in November 2017, according to the Moneyfacts UK Savings Trends Treasury Report.

In its release the online publication revealed that 1,297 accounts now pay above the base rate, however, this is five per cent lower than the number of accounts that were offered above base rate interest in 2016.

Figures also show that this is four per cent lower than a month after the last rate cut in August 2016. In addition, the average return available on easy access accounts is yet to rise above its pre-cut levels and currently stands at 0.49 per cent, compared with 0.54 per cent in August 2016.

Charlotte Nelson, Finance Expert at moneyfacts.co.uk, said: "This indicates that, while the base rate has returned to 0.50 per cent, the savings market has yet to recover from the rate cut almost two years ago.

"These latest figures clearly show that some providers either didn't pass on the rate rise in November or only increased rates by such a small amount that it had little effect. With the main banks still not requiring savers' funds, it is unlikely that this is going to change anytime soon."

In comparison, returns available on fixed-rate bonds have increased for the third month running to reach their highest levels in two years.

"This is predominantly fuelled by challenger banks boosting competition, yet it'll be little consolation to those who want easy access to their cash," adds Charlotte.

"Not only will savers have had their hopes dashed as a base rate rise this month was not meant to be, but the news that the last rise failed to result in better rates for most will be an added thorn in their side." She anticipates that most active savers, put off by these poor rates will dispose of their accounts and find new sources of investment to increase their returns.

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