BIRCHWOOD INVESTMENT MANAGEMENT LTD
NEWSLETTER

July 2020

It's plain sailing...

Lockdown wind down - What's next?

2020 will be talked about for many a year to come, a fifth of the way into the 21st century will be marked as a major glitch that has globally tripped up the human race. The topography of this world's science, politics and humanity has been seismically disrupted, shifting entire foundations which once we felt was something dependably solid to stand upon. For our family and friends, and society in general, present and future, that now feels irrevocably ripped out from beneath our feet.

With ever changing degrees of uncertainty come greater complexities in planning and preparation, yet this is precisely the time to recognise what we have power to take control over, and fortify what resources and strengths we have to rebuild as solid a foundation as we can. The global economy on a world scale, is likely to continue to be unpredictable and this we need to reckon with. So let us take stock of what we have.

For many, those fortunate enough to have surplus money from furloughed earnings, or busy working in needed industries, or even with variable income streams, having equally had spending outlets capped, now have surplus funds. Bank interest rates have for many years ceased to allow capital to accrue to anything worthwhile and there exists the possibility that negative interest rates may be incurred, meaning we'll be paying banks to look after our money. While this is unlikely, it highlights the need to embrace a mindset change of how money is used and invested as productively as possible.

For many, COVID-19's indiscriminate devastation means redundancy has assaulted a number of industries and hundreds of thousands of people will be, or are already, sitting on relative lump sums of cash, unsure of what to do with it. It may be that those of younger years will feel they can recover quickly with new roles in climate moving industries and commerce, but those nearing retirement could really lose out. Change is often more difficult to negotiate the older you are that, as there are less options to embrace and it's critical that decisions are not made in haste.

Pensions are rarely well understood and a degree of complacency leads to the belief that funds reside safely and reliably with a company pension underpinned by a state pension and everything will be well. Many people are now planning later retirement, increasing contributions, and truly analysing their expenditure. There are company schemes, private schemes, pension freedoms and pension annuities, and a distinct lack of clarity in what they all mean.

A new mindset is emerging with a caution in spending, trending toward a culture of saving. Children, teenagers, and people still at home with parents/guardians are seeing the impact in the family home, and this could be seen as a growing conscience in how money is used in a way that has not been seen in a long time. The encouraging interaction and rebuilding of bonds with family members has brought togetherness in fighting fears and uncertainty and elevated awareness of handling money and spending more responsibly. More parents are considering and choosing junior ISA's and as contemplating the future continues to deepen in the minds of all demographics, the importance of helping to build, retain and establish legacies for the security of families and dependants increases also.

All of this, however, runs hand in hand with a diminished confidence in all kinds of areas of investment commodities, asking where, for how long, with whom, and what is trustworthy and carrying reliable integrity in a economy that has been panicking. Outside of the sensationalist social media platforms often responsible for feeding negativity and imbalanced communications, UK regulators of the pandemic, have actively intervened in different ways to protect the economy and some evidence suggests, despite uncertainties, that financial markets are measurably recovering.

The FCA (Financial Conduct Authority) wrote to all UK listed firms on the 22nd March, with the express result of wanting to oversee the publishing of market information, that would help control out-of-date figures curtailing irregular movements by investors. The Bank of England has cut interest rates several times, which allows and encourages companies to borrow at lower costs to generate greater profits, and with dividend and buyback shares stopped, it has given banks nearly £8bn as a cushioning fallback to lend to businesses and to households.

There is still no doubt some fluctuations in regulations will manifest in Government proposals and we cannot underestimate the importance of getting the right information from the correctly resourced and trained organisations. Those that have no other agenda or focus but knowing you, knowing the marketplace, and working with you, to make the best informed decisions with your preciously earned finances, resources, pensions and forecasted investments.

Independent Financial advisers are now more important than ever, amidst the chaotic world we now find ourselves in. As lockdown eases and trends, now is not the time to be influenced into hasty and impulsive ideas by an "informed" colleague or casual chatting by well meaning, but ill-informed friends. Your financial adviser will deliver informed and qualified experience because they understand the current climate.

We continue to be here to support you

As a nation, apart from those in key roles, most of us continue to spend much of our time at home. During this period priorities may have changed and the health and well-being of ourselves and loved ones has never seemed so important.

Our advisers and support teams have made the transition to working from home and they are committed to maintaining the level of service, you as a client have come to expect. You can continue to email or phone your adviser using his or her usual contact details.

If you do need to call our support teams, please call our usual number 01438 840888 and you will be directed to the correct person.

At Birchwood, we continue to operate as we have been doing since the government announced its measures to contain the coronavirus. We have embraced developments in technology with our teams already operating from home using secure systems to enable remote working.

What this means for you is that our advisers are here for you as we have always been. If you do need to talk to us you don't need to wait. Many of our clients have been using the time at home to review their situation and have contacted their adviser to arrange an appointment. Many of us will have used video to speak to friends and family, perhaps even our Doctor. At Birchwood, we have chosen secure and confidential channels for any video appointments. So, if you haven't tried this yet, your adviser will be happy to arrange a video appointment should you want to try this and can offer further support with setting this up if required.

According to reports there have been some positive benefits resulting from different ways of working including a greater sense of community and a reduction in pollution as we travel less. The response from clients to some of the technological changes we have made has been so positive, that Birchwood as well as other businesses will keep these in place in the future. This means that going forward you will have more choices open to you about how you choose to interact with your adviser.

Covid and the economy

In volatile markets, it is perfectly normal for clients to feel uncertain and to focus on the potential for short-term losses over their longer-term investment strategy. As a Birchwood client, you will have a strategy in place that reflects your risk tolerance and objectives and timescales, so remain committed.

We will continue to provide our advisers with up to date information produced by our investment analysis and research committee, so they can best support you and answer any questions you may have.

Protecting yourself from scams

We are sure you have read in our recent ebulletin and National Press, that fraudsters have taken advantage of the coronavirus situation and targeted pension savers and investors. Please be extra vigilant. We have some tips to help you spot these scams and protect yourself on our website.

We thank you for your support in this difficult time and we will continue to update our website with any news on how we are operating at the current time, as well as our latest thinking on the economy. We do hope you and your families are staying safe and we remain here for you when you need us.

Will borrowers return to interest-only mortgages?

With people dipping their toes back into the property market they could be looking for a new mortgage deal. If they have had a change of circumstances due to the Covid-19 pandemic, they could be considering an interest-only option according to research from Moneyfacts. 61% of all mortgages now allow an interest-only option as an alternative to the conventional capital and interest repayment method, up from 48% in March.

However, pure interest-only mortgages remain a very niche area of the market, totalling just 77 products, or 3% of all residential mortgage products. Rachel Springall, finance expert at Moneyfacts, said: "The nosedive in the number of residential mortgage products has been as clear as day, with higher loan-to-value options taking a huge hit, but there still remains a healthy portion of deals for borrowers who may wish to take advantage of an interest-only repayment. Savings rates are at record lows and so if some borrowers have more disposable income, they may wish to pay off their debt rather than to save.

An interest-only mortgage could be a viable option for borrowers who have suffered financially as a result of the coronavirus pandemic. Borrowers may well be seeking ways to reduce their monthly expenses, and an interest-only mortgage could do just that, however, it is usually required for there to be a credible repayment plan in place which can entail additional monthly costs or outgoings. It is crucial then for borrowers to seek out independent financial advice to ensure it is the right option for them.

The number of pure interest-only mortgages designed for specific types of borrowers remains limited. Unlike the financial crash, where consumers may well have got into financial difficulty having taken out an unsuitable deal that subsequently became unaffordable, there are more checks in place today thanks to the Mortgage Market Review (MMR). "Those borrowers who are considering a retirement interest-only mortgage will find 86 deals currently on the market, but it is vital they also consider equity release as an alternative as well. According to a recent study by One Family, around 40% of over-55s who have an interest-only mortgage will see it come to an end over the next five years and 83 of 2,000 survey respondents may now consider equity release.

In recent years, the number of borrowers on an interest-only mortgage has fallen, by 8.9% between 2018 and 2019, and both the total number of interest-only mortgages and their value have fallen by half since 2012, according to UK Finance. However, there could well be borrowers struggling to meet their monthly commitments right now who want to switch to an interest-only mortgage over the short-term, as well as borrowers coming off an interest-only deal in 2020. In fact, there is expected to be 54,000 interest-only mortgages due to mature this year, and these borrowers will need to be catered for if they have outstanding debt.

According to Legal and General Mortgage Club, there was a significant rise in broker enquiries about interest-only options between April and May 2020. Interest-only searches by advisers were the third-highest search in the first week of May. As borrowers come off mortgage payment holidays, more consumers could be debating an interest-only option and using an independent financial adviser is a wise choice to find the most appropriate deal during these challenging times.

If an interest only mortgage is something you wish to consider, please speak to one of our advisers that specialises in mortgages to discuss if this is the most appropriate option for you.

Market Report

July 2020

Global Review

After losing almost a third of their value in little over a month, global equities, as measured by the MSCI All Country World Index, bottomed on 23 March. This was the sharpest decline in equity market history. The uncertainty surrounding the Covid-19 pandemic and the sudden impact of an enforced lockdown around the world, led to widespread de-risking as investors feared a long and deep economic recession as a result.

Since their nadir equity markets have gained 35% and continue to climb as greater clarity on the treatment and control of the virus has emerged. Many smaller businesses are now beginning to re-open under strict guidance and this together with massive support from central governments has stabilised financial markets, protected jobs and provided much needed confidence. However, with many parts of the world still struggling to bring the virus under control and fears of a second wave, investors remain cautious.

UK

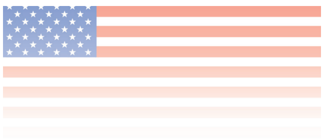
Economic activity in the UK is almost 25% lower than it was in February according to the latest figures from the Office of National Statistics. This followed meagre growth of 1.8% in May as lockdown measures were eased. In response the government has announced a raft of new measures within an interim mini budget.

This includes a £9bn job retention scheme, £2bn for youth apprenticeships and the suspension of stamp duty on property transactions of up to £500,000.

With nine million workers still on furlough, the government had already announced an extension to the Job Retention Scheme until October but stipulated that businesses were to make a higher level of contribution.

Prime Minister Boris Johnson has also announced a new £5 billion fund to 'build, build, build' infrastructure across hospitals, schools, and prisons. In total the government has promised to spend £190bn during the current crisis.

US



Crisis relief spending coupled with falling tax revenues as a result of massive job losses pushed the US budget deficit to a record high of $864bn for the month of June. Stimulus measures have created a deficit of £3tn in the past 12 months, the equivalent of 14% of GDP for the world's largest economy.

The country's own Paycheck Protection Program and emergency loans and grants have seen Congress commit $3.3tn to the crisis.

Over 40 million Americans have lost their jobs since the beginning of the Covid-19 crisis and the fear is that a third of these losses may be permanent.

The push to reopen the economy following lockdown has seen confirmed infections of the virus double in a week in a number of states forcing the authorities to reverse the easing of restrictions.

The country is still registering over 60,000 new infections a day and is by far the most severely impacted nation with over 135,000 deaths attributed to the virus to date.

Europe

A local study in Italy, the epicentre of the pandemic in Europe, recently concluded that Covid-19 "no longer clinically existed" in the country, a statement seemingly supported by a fall in the number of new daily infections to single figures. However, Germany, a country hailed for its response to the pandemic, has been forced to impose local lockdowns on 500,000 people due to regional spikes in new coronavirus cases with an associated jump in the virus reproduction rate.

The prospect of a second wave and a more gradual lifting of lockdowns have prompted the European Commission to downgrade its economic growth forecasts for the region. Eurozone GDP contracted by 3.6% in the first quarter, the sharpest decline for 25 years, as Germany officially entered recession after growth in the fourth quarter of 2019 was revised down to -0.1%. Despite these developments, EU leaders have still to reach agreement on a €750bn stimulus package proposed back in May.

Japan

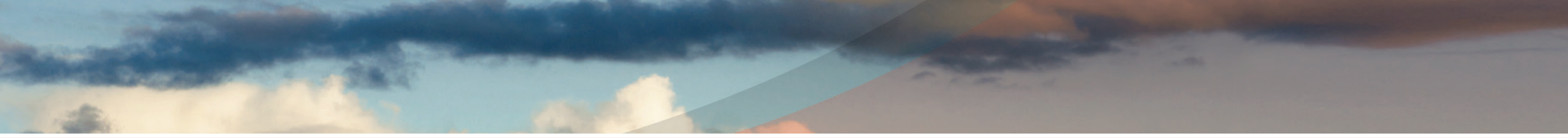
Japan has committed ¥234tn ($2.2tn) to fight the economic impact of the coronavirus pandemic, the largest of any nation relative to the size of its economy at approximately 40% of GDP. The government announced a second exceptional budget of ¥32tn ($300bn) in June funded by additional bond issuance, taking borrowing to a record ¥90tn ($840bn) this financial year. Total new issuance could yet exceed ¥200tn ($1.9tn) to cover the rollover of maturing government bonds.

The country has recorded less than 1,000 Covid-19 related deaths, compared to almost 45,000 registered in the UK. This equates to 0.8 deaths per 100,000 people versus a rate of 65.7 in the UK. Lockdown measures have been voluntary but advice to avoid enclosed or crowded spaces has been respected and the wearing of facemasks is long-standing practice even for those with the common cold. Whilst the Japanese economy is far from buoyant, the absence of an enforced lockdown is likely to soften the impact of the coronavirus.

Asia

China, the first country to report cases of Covid-19, have registered fewer than 5,000 deaths from the virus. Lockdowns were being lifted by early April with no new deaths from the virus recorded. As a result, economic activity has quickly rebounded. This pattern became a blueprint for economies that could effectively combat the pandemic and has been reflected by a sharp recovery in local stock market prices. The Shanghai Composite Index had recovered all year-to-date losses by early July.

India has rapidly become one of the new epicentres for Covid-19 with the number of confirmed cases doubling to almost a million in the last three weeks. Inadequate health provision across much of the country makes social distancing the most effective means to fight the pandemic and this prompted the government to impose an immediate 21-day lockdown in late March. However, this in turn triggered a mass exodus of migrant workers back to their rural homes, perhaps compounding the risk of infection.



Married women could be owed £100m

An investigation instigated by former pensions minister Sir Steve Webb has revealed about 130,000 female retirees could be missing out on a bigger state pension due to government errors.

Some retired married women can collect a state pension based on their husband's work record but many are receiving less than they should be. Some wives have also been reassured they were being paid enough, only for the Department of Work and Pensions (DWP) to later admit they were owed thousands of pounds.

Experts are calling on the Government to investigate how many women are missing out and give them what they are entitled to. It is a double blow for the 3.8 million women born in the 1950s who were made to wait up to six years for their state pension when the government raised the age from 60 to 66.
The issue appears to be particularly acute for older married women who may not realise that they had to put in a claim for a higher pension when their husband turned 65. But there also appears to be a problem for other married women, for some widows and divorced women and for the over 80s.

The scandal affects married women who reached state pension age before April 2016. These women are entitled to 60% of the state pension their husband gets. This is due to their working life being at a time when more wives were financially dependent on their husbands. In many cases women did not pay enough National Insurance contributions to earn a full pension.

Before 2008, married women had to claim the extra income themselves when their husband started collecting his pension but from then onwards, the DWP was supposed to pay the upgrade automatically.

But figures suggest around 130,000 married women – whose husbands were collecting the full basic state pension of £134.25 a week – were getting pensions lower than the £80.45 a week they should receive. In some cases, affected women could be owed backdated payments running into thousands of pounds and the total amount owed could be up to £100m.

Sir Steve Webb, a former Lib Dem MP, told the Daily Mail: "It is truly shocking that thousands of women are being short-changed on their state pensions. The system is highly complex and few will be aware of the special rules for married women. "It is time for the DWP to take this issue seriously and launch a full investigation." He said widows and divorcees could also be missing out because they were also entitled to a pension rate based on their husband's contributions.

A DWP spokesman said: 'We are aware of a number of cases where individuals have been underpaid state pension. We reimbursed those affected as soon as errors were identified. "We are checking for further cases and if any are found, awards will be reviewed and any arrears paid."

The issue was raised yesterday in the House of Commons for the first time. However, the government's response has been condemned as 'woefully inadequate' by Steve Webb, former pensions minister and partner at LCP.

Speaking in the house of commons, shadow pensions minister, Jack Dromey, said: "Case after case has been uncovered of retired women underpaid on their pension. Many don't know yet to this day. Some have tragically died before learning of the department's mistake.
"When will the department work out how many women have been affected, who they are and bring forward a plan to contact them?"

Pensions Minister Guy Opperman told the House of Commons that when individual cases were brought to the DWP's attention, matters had been corrected and encouraged others to come forward. But he declined to take up the suggestion from opposition MPs that DWP should actively contact women who had been underpaid.

Steve Webb commented: "With more and more women coming forward to report underpaid state pensions, there is no doubt that there is a systematic problem here. It is not good enough for the DWP to ask people to come forward one by one. The government has had long enough to review this issue – it is time for action. DWP must use its own records to track down the women who are missing out as a matter of urgency. The current response to this issue is woefully inadequate."

To find out if you are affected, If you are a married, widowed, or divorced woman and believe you may not be receiving the right State Pension, please contact The Department of Work and Pensions on www.gov.uk

Our new client portal is here!

We're launching our new Client Portal and App for all our agreement clients – yourBIML – during August and September. Clients will be able to access the portal at different stages over the next 2 months and existing users of our online system will be contacted shortly.

Our mobile App can also be found by searching for "yourBIML" in the App Store or Google Play.

The Portal will allow you to have a 360 degree view of your finances, all in one place, providing a host of useful features such as:

- Plan details including valuations of your Investment holdings, which are updated daily, along with graphs showing recent performance. Enhancements include key events such as maturity dates and surrender values where available.
- Secure messaging facility with attachments; this is enhanced to include the ability to sign documents digitally, reducing the need for original signatures.
- The optional ability to link your bank accounts to your investment portfolio via Open Banking, including amalgamating and analysing spending and savings.
- Property valuations based on Land Registry data.
- Secure document storage. This is particularly convenient as we can add current documents, such as our monthly investment updates but also advice letters. We will also be able to provide your quarterly valuation online in early 2021.
- Your net worth, disposable income and the split of your investments.

We believe this is a valuable addition to our services and encourage you to utilise this as a central resource for all your financial information and planning.

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