

BIRCHWOOD INVESTMENT MANAGEMENT LTD NEWSLETTER



July 2021

It's plain sailing...

State Pensions, what can we rely on?

The pension triple lock, amongst a number of issues raised by the current Government in attempting to offset the impact that Covid-19 and Brexit has had on Britain's finances, appears to be steering toward suspension, as the hints and evasive answers in recent discussions seem to indicate.

It looked set to be an encouraging boost to pensioners. The triple lock annual state pension rise is based on the highest figures relating to inflation, average earnings, or 2.5%, and this year the surge in post-lockdown pay growth meant the average earnings rose by 5.6%. With a prospective figure reaching somewhere around 8% for next April, this has understandably caused concern for the OBR (The Office for Budget Responsibility).

The pension triple lock was borne from the coalition government in 2010, a piece of rare cross-party consensus that was re-affirmed in the 2019 election, by the Government pledging to honour the increase. This was obviously prior to what the OBR now call the "artificially high" disparities caused by the loss of lower paid jobs, and those remaining in work who are now paid comparatively more.

The chancellor Rishi Sunak has stated that the Government "must wait for the actual numbers to be finalised", declaring it was all currently "speculation", and that the policy needed reviewing "properly at the appropriate time". To

break a manifesto commitment would require Boris Johnson to have the final approval, who knows only too well the volume of pensioners who are loyal to the conservatives. However Sunak will likely argue to implement a one-year suspension to try and get public finances to a more sustainable path, and push for other priorities such as the NHS and catchup funds for schools.

Several other factors are also coming into play, where it has been suggested that were state pensions increased, it would be deemed intergenerationally unfair, being argued that younger people will be paying taxes that fund those who are relatively better off.

As it stands, the younger community are far less likely to reap the rewards of a defined benefit, occupational pension that guarantees a pension of a percentage against either a final salary or career average, so ironically, they will be more reliant on a state provided pension.

There is also a petition, on the official parliament website, pushing for the state pension age to be lowered to 60 with immediate effect, so that this can "free up jobs for young people". It said "young people are struggling to find work and losing their jobs due to the pandemic", so therefore "why not allow older people to retire earlier freeing up jobs?", and though there would be a cost, it is "purportedly a far more positive cost than paying universal credit".

Redundancies are expected in September when the furlough scheme ends, so there will be many more people in competition for employment, so the petition aims to present earlier retirement as a potential solution in taking older Britons out of the job market and allow younger people to come to the fore. This is of course in complete contrast to the fact that generationally we are living far longer and would, in this case, need more funds to keep us afloat for an extended retirement.

With so many irregularities facing many demographics of people, it calls into question how prepared are the many who will be affected, realistically forecasting for a sound and secure financial future. The answer is there are millions who have not considered such a changing landscape, and how it will inevitably alter their lives quite considerably, with many facets of security once considered reliable fallbacks no longer forming that trustworthy bedrock.

Approaching independent financial advisors is not the province of solely the wealthy, the clued-up investors, property owners and those who have historically come from families familiar with the roles financial advisors play. They can meet you at any level, work alongside you with experienced professional insight, examining your current position, and offer reliable, tried and tested formulas, to assist in establishing the wisest course forward for a manageable financially confident future.



Planning for the extended family

Dynamics, in terms of a scientific definition, is the study of motion, energy and forces. The dynamics of a system are the forces causing change or progress, yet the dynamics of a group of people are the opposing forces within it that cause it to change.

However long it continues to be felt, expressed and quantified, there is no doubt that two of those major forces affecting groups of people, certainly in the UK, are the impacts of the Covid-19 Pandemic, and the infamous portmanteau of Britain leaving the EU, known as Brexit.

Drop a pebble into a pond, and watch the ripples concentrically spread out, until the energy appears to dissipate, and the calm remains. While it's the same principal, the effects of this energy can be devastating, dramatically redefining people's lives and social structures.

Certainly, the metaphor can be applied to forces that have already changed the societal landscape of Britain, and its integration with the rest of the world, with the need to adapt almost moment by moment with the need to appraise, not just the next 24 hours, but many years ahead.

At the behest of any country needing to be

repaired, rebuilt, and progressed to varying degrees of success, is of course its Government, wrestling to keep a strained economy going while at the same time shutting it down to protect citizens from a proliferating and virulent virus.

Families have seen huge routine changes due to lockdown isolations and the Government has sought to implement schemes and support structures for companies, employers and employees to try and adjust as effectively as possible, but the key outcomes have been social dissemination and financial adjustments, with huge swathes of people examining their incomes and savings, pensions and investments, and realising revision has become essential.

While the vaccine rollout has elevated some measure of promised normality, the variants of Covid-19 are still causing eruptions and the family infrastructure is manifestly changing to support these uncertainties in unanticipated ways.

There are those with long Covid with the outcome of this condition still clouded, there are those that can't get hospital treatment for other serious illnesses or have need for essential surgeries and care; many have lost their jobs,

many will lose their jobs, a portion of which may well be penalised in terms of pension payouts and other penalties. The Government are considering clawing back some of the pandemic deficit by reaching into pensions and unemployment is set to continue to rise - all a bleak uncertainty for many.

The extended family is becoming, or more accurately has become, a reality with the need for children to stay at home longer steadily increasing. More and more parents are finding themselves comfortably labelled the "sandwich generation", meaning they are caring for both their children and their parents simultaneously, weathering the needs for later life care with balancing the Bank of Mum & Dad as house prices and rents have soared. It is no surprise then that there's a growing responsibility to use existing resources wisely for all dependants, with careful and holistic planning now a wise priority for many people, through reaching out to reliably informed services.

Although some experts are predicting a timely recovery for the economy, it is too soon to foresee how long it will take for societal changes to return to pre-pandemic levels, if indeed they ever will. In the meantime we may experience our loved ones leaning on us both financially and emotionally, some way yet into the future.

Smart homes: are they smart enough?

The days of giant Nokia mobile phones, pagers, VCR's, CRT monitors the size of squash courts, even the humble AA map of Great Britain, are now all distant memories in a world flooded with the pinnacles of technology. Smart devices are everywhere, in fact almost everything has become a smart device, and it is little wonder that broadband speeds, Wi-Fi and signal boosters are so essential because this gadget infrastructure dominates and dictates the world we are now so familiar with.

The average house has at least 10 connected devices, not just the obvious TV's, phones and computers, but thermostats, energy smart meters, printers, security systems, garages & gates, kettles and even cookers. While they draw the consumer into an efficient, entertaining life enhancing embrace, sadly smart homes have inevitably become a greater draw for hackers.

It is widely accepted and reinforced over the years since early Microsoft windows operating systems dominated the workplace and home personal computers, that software viruses exist. We know these can be potentially utterly ruinous and we dutifully employ software protection to counter these insidious attacks.

If the familiar PC, and until recently virus protection on phones, is active and updated

regularly, information and personal details are reassuringly safe, albeit with us needing to continue to be vigilant and alert in monitoring the email phishing and reporting the bogus phone calls to hopefully keep these held at bay.

Which magazine conducted a very interesting and somewhat alarming experiment, when they set up a fake smart home using genuinely procured consumer goods. These were set up in exactly the way a consumer would be led to do, all connected to the internet.

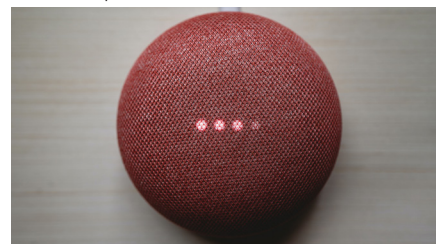
The test home was in collaboration with the NCC group and the Global Cyber Alliance, and in May of 2021, they observed 1,017 scans and hacking attempts from all over the world, 66 of which were classed as malicious, all in the first week. Further observations by one week in June, saw a dramatic increase to 12,807, with 2,435 of these being deliberate attempts to log into devices that had weak usernames and passwords - truly unnerving!

As home networks are commonplace, with laptops and PC's wirelessly accessing a home printer, it was observed that this was the most vulnerable device. A security camera was also detected to not only have been accessed, but some settings even changed, and once reported the item was immediately removed from sale.

There are seven recognised types of malicious hacker, ranging from cyber criminal organisations, to rogue hackers, and while the primary fear is access to personal accounts and stolen money, it can also mean ransomware, data theft and surveillance.

The findings further indicated that one major exploitation was to add devices to what is collectively called Mirai, a pernicious botnet roaming around looking for weaknesses in routers, wireless cameras, and printers, guessing weak passwords and installing trojans. These are powerful enough that in 2016, Twitter, Amazon and some other major websites were temporarily offline.

The advice from the findings follows thus. Change default passwords and make them strong, enable all security features, keep on top of updates, and again, keep aware of phishing tactics, phoney websites, and report anything that is suspicious.



Market Report

July 2021

Global Review



Global economic activity has rebounded from the covid lows of last year with the rollout of vaccines raising the hope of an imminent return to normality.

Upward revisions to already strong economic growth forecasts in 2021, driven by a sharp recovery in demand, is fuelling concerns over the inflation outlook and as a result the timetable for higher interest rates.

Most notably, the US Federal Reserve issued a more hawkish outlook for rates at their June meeting after the May inflation print spiked to 5%.

Financial markets initially struggled with the prospect of higher inflation but the US Federal Reserve continue to support the view that the current elevated levels are transitory despite their more hawkish tone.

Fed Chairman Jerome Powell even went as far as saying that "We're not even thinking about thinking about raising rates" without evidence of a strong recovery in the labour market.

UK



Economic activity in the UK has accelerated as lockdown restrictions have been eased with jumps of 2.4%, 2.0% and 0.8% in March, April and May respectively.

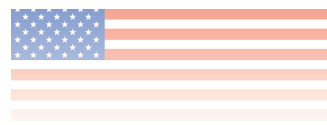
This left GDP just 3% lower than pre-pandemic levels and activity is forecast to exceed Q4 2019 figures in early 2022 according to the Bank of England. Consumer spending, fuelled by additional

savings during lockdown, in tandem with greater confidence in the health outlook is expected to drive short-term demand.

Despite the number of covid infections rising to similar levels witnessed in the autumn of last year, a level that prompted a tightening of lockdown measures, all covid related restrictions are expected to end on 19 July.

The four week delay to re-opening, driven by concerns over the new delta variant, has allowed an acceleration of the vaccine rollout with 85% of the adult population now accepting their first jab.

US



The US and UK have led the world on the rollout of covid vaccinations and local financial markets have reflected the advanced state of reopening in these economies.

The US benchmark S&P 500 index has set a number of new record highs in recent weeks with early inflation fears replaced by confidence over the economic outlook.

Central bank policy remains supportive with the US Federal Reserve set to keep interest rates at emergency levels whilst introducing a new framework of average inflation targeting.

Inflation is expected to run above the central banks 2% target in the short-term as 'revenge spending' boosts consumer demand.

US households are estimated to have accrued \$1.6bn in excess savings during the pandemic, the equivalent of 7.5% of US GDP.

The International Monetary Fund has raised its full year growth forecast for the US to 7% from its April estimate of 4.6% with job losses falling to a 21-year low.

Europe



The European Commission's latest forecast predicts that the region's economy will surpass pre-pandemic levels by the end of the year, a quarter earlier than expected due to an acceleration in the vaccine rollout.

After an underwhelming start, the number of people that have received their first jab in Germany, Italy and Spain is now greater than in the US with the latter plateauing due to a high rate of hesitancy.

The improved economic outlook has raised questions over the level of ongoing stimulus required to support the economy, forcing the European Central Bank to reaffirm its commitment to the current €1.85tn pandemic purchase programme.

The Governing Council warned against premature tightening with inflation still falling well short of the Bank's target and the imminent tapering of labour support schemes across the continent.

Japan



Japanese Prime Minister Yoshihide Suga is expected to announce additional stimulus measures in the run up to the next general election that must be held before an October deadline.

The government has already deployed packages totalling \$3tn over the past year to combat the impact of the pandemic.

Japan's economy proved relatively resilient last year but was weaker than expected in the first quarter as the government took steps to

stem a spike in infection rates.

The approval rating of Suga's Cabinet has dropped to levels not seen since last year, shortly before the previous Prime Minister Shinzo Abe resigned.

Voters have been unhappy with the government's handling of both the coronavirus pandemic and the Tokyo Olympic Games. Japan is one of the least protected developed nations, with vaccines not approved for use in the country until mid-February due to the requirement for local trials.

Only 19% of the population have received their first vaccine and less than 9% a second dose.

Asia



China has also been slow to vaccinate its population and only recently hit a target of 40% after a huge acceleration in the number of jabs being administered.

There has been significant reluctance to take the Sinovac vaccine on doubts over the safety and efficacy of the inoculation, particularly as border controls and local lockdown rules appear to have suppressed infection rates.

Strict quarantine rules apply on entry to the country and these are set to remain in place until after the Beijing Winter Olympics next year.

Whilst the weekly number of infections during the height of India's second wave prompted the offer of emergency aid from the developed world, the number of cases per head of population has been comparable to other emerging nations.

The government has taken a more targeted approach to covid restrictions that will limit the impact on an economy forecast to expand by 10% in the current fiscal year.

Has Brexit heralded a call for Brits to return to the UK?

One may look at the way many years ago we launched into space, got to the moon, shot back to earth relatively safely, examine the incredible feats and impact it had on the globe, yet gaze around at post -Brexit UK, EU, and a Covid slammed world, and wonder when and how, "on earth" are we going to land safely and securely, with a clear and renewed sense of purpose and future.

Every strand of life has been and continues to be affected, with the outcomes consistently changing and less dependable for people to feel equipped to take sure steps in safety and preparation.

Brexit, by definition, is the UK's separation from the EU, yet many Brits did not really believe this was going to adversely affect their personal freedoms to travel to European properties, visit their relatives for extended periods of time, or indeed upset dual nationality relationships; families felt they would be safe and vocational activities would continue unhampered by virtue of being a business need and therefore mutually agreed benefit across boundaries.

Boldly proclaimed were the words of the Government representative Priti Patel "My great delight that after many years of campaigning, free movement between the EU and Britain would at last end on 31st December 2020." Regardless of the pros and cons of such a charged announcement, the ramifications

of which appear far from determined, there has understandably, been reactive fear from most quarters with emerging responses to be recognised.

There had not been the need, prior to Brexit, to consider long term finances for UK citizens who purchased property and planned retirements in the EU. The homes were procured either by outright payments or manageable loans; pensions and savings structures were stable providing financial security, there was no need for residency (unless living in the EU full time and even then they were not always applied for), and return visits were cheap, uncomplicated, with a comfortable stasis established.

By the evidence of popular reality TV shows such as "A new life in the sun", there are many Brits who have invested heavily in EU businesses, pouring entire estates and assets into the belief that the marketplace is healthy enough and reliably sustainable for a working future. So much of this was based on British tourism that has almost bottomed out completely, leaving these couples and families facing challenging financial dilemmas.

Many properties across Europe have been much cheaper than those in the UK, with a measurable market decline in many Schengen area regions. While selling up on British soil meant, in the majority of cases, a desirable home with surplus cash being factored in as part of the financial

backbone, reversing that process will become significantly harder, not least as UK property has had a boom in very recent times, and the trend still set to rise.

The choice will be residency, with reduced flexibility outside the EU, or repatriation, which comes at various costs. Will you have sufficient access to care later in life in your current country of residence (how long until your European health insurance card expires), will family in the UK have easy access to you, will there be the guarantee of NHS or various other forms of care, unless repatriating?

There still remains some uncertainty regarding the sustained validity of a UK driving licence in certain countries, the kinds of insurance or permits needed, and there exist different taxes regarding inheritances, or if working, being self-employed and how assets are defined regarding wills and probates.

As the laws continue to be addressed and established, it is worth reaching out for independent financial advice regarding planning for future events, especially if you have not yet moved away from the UK and are considering applying for residency elsewhere. Families will not want to be isolated in uncertainty so take your time to establish all resources and services available to you from a professional and balanced perspective.



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