BIRCHWOOD INVESTMENT MANAGEMENT LTD NEWSLETTER

October 2021

It's plain sailing...

The rise of the second home...

There have been many side effects from the last 18 months and a global pandemic, and although some are more obvious than others, one that is still growing in popularity is the purchase of a second, or even third, home.

Whilst many have undoubtedly suffered financially due to Covid-19, there are those who have been able to increase their savings, maximise lower interest rates on home loans and take advantage of the new trends of remote working to cash in on any high equity properties and spread their property portfolio further afield to give them a better work-life balance and quality of life.

Although the draconian lockdowns have lifted and the popularity of City living following a previous exodus to the rural life is returning, the demand for second homes is still buoyant. Between April and June 2021, 84,700 homes purchased fell under the extra stamp duty required for additional homes - the largest quarterly figure since this surcharge became law. In addition, it also generated 24% of the £2 billion+ residential stamp duty that the treasury collected during the same quarter.

It's no surprise that Londoners are driving the second home boom with purchases increasing by 83% in the first 8 months of this year. Being prevented from travelling overseas for so long prompted many to consider unlocking significant equities in existing homes and using this to purchase properties in more rural settings or those by the coast, and with the sharp increases in house prices (even within the last decade), the aspiration of owning a second home is one that a far larger volume of home owners can seriously consider. It is not just for the rich anymore, indeed many city dwellers longed just to have their own garden space and access to outdoor living.

However, this trend has not proved a popular one across all parts of the UK. Some picturesque, previously tourist style towns are starting to ban second home buyers from creating soaring house prices meaning locals are being priced out of their localities. As staycations became more attractive, residents of Fowey in Conwall voted to ban "rich outsiders" (their term) as they saw property prices rise by more than £100,000, with some homes selling for upwards of £1m. St Ives and Mevagissey are also adopting a similar process.

For those who were able to take advantage of the "Right to Buy" scheme which launched in 1980, they may well now be sitting in a proverbial gold mine when comparing the value of their property when they bought it, to its value today. Sadly, the policy initially intended to help the working classes become owners rather than just occupiers has translated into rental income slipping from local authorities to private landlords, and meaning the younger generations will have to save longer and harder than their predecessors before holding a set of keys to a house they own.

Overall house prices are forecasted to increase by 3.5% per year between 2022 and 2024, with more homes predicted to sell in 2021 than in the last 13 years with the "race for space" and the stamp duty holiday largely responsible. Data shows that this growth curve is unlikely to lose pace, especially with the continuation of flexible, hybrid working with North East England set to perform the best and London potentially underperforming compared to the rest of Great Britain.

As Airbnb provide an accessible platform with which to generate income from additional real estate, it will be a matter of time before we can see how the side effects of Covid-19 will truly change the property landscape within the UK and whether the divides between the North & South and those of the working classes will become wider or narrower.

Are changes afoot for Inheritance Tax?

Following the recent 1.25% increase in National Insurance payments, there has been much speculation around whether additional "wealth" taxes will also be targeted by Chancellor Rishi Sunak. The Autumn 2021 budget may well have been announced by the time you read this article, detailing whether Inheritance Tax is next on the agenda for significant increases, especially as the UK somehow, has to claw back the eye watering levels of borrowing it had to resort to, to help us weather the storm that a global pandemic brought.

At the end of March 2021, according to the Office of National Statistics (ONS) the UK's debt equalled £2,224.5 billion, as furlough payments were forced to be prolonged, a vaccination programme that whilst enabling us to eventually find a way out of lockdown, was far from cheap and increases in Universal Credit have all led to what must be a highly contentious conundrum for a Government whose manifesto was not to raise taxes.

Inheritance tax (IHT) is often referred to a stealth tax as it is effectively taxing people twice – once through standard earnings during a person's working life, and secondly on property and assets they have accrued while paying these taxes. It is certainly unpopular, even though currently it only affects around 4% of deaths in the UK….for now. Taking into consideration the increases in property prices, this figure is sure to grow without any budget changes, as more and more households are finding themselves on or over the tax free allowance of £325,000 which was frozen until 2026 in the Spring 2021 budget. Put simply, a tax that was initially aimed at the super wealthy, is now hitting middle income earners.

Whether the standard IHT exemptions of the £3000 annual gift allowance are impacted this Autumn, the residence nil rate band or standard nil rate band is reduced, it will likely be time to consider reassessing one's assets, potential increases in your overall estate and how your family will cope with any tax increases levied upon them in the coming years.

The Government received £6.01 billion in inheritance tax in the last 12 months, an increase of 19% from £5.04 billion. To avoid your estate being included in these statistics there are ways to reduce IHT including leaving a legacy to charity, setting up a trust for your heirs, and even paying more into your pension rather than savings as these are exempt from inheritance tax. The caveat here however, is if the pension exceeds the £1.07 million lifetime allowance, beneficiaries will be hit by a 25% tax levy.

By talking to your financial advisor here at Birchwood sooner rather than later, they will be able to discuss what avenues are open to you following the outcome of this Budget and what may lie in store. There is no doubt that the UK needs to raise funds to bridge the gap between national spending and Government income but it doesn't mean your loved ones need to lose out more than is absolutely necessary.

How Covid-19 has changed the perception of financial advice

Professional financial advice has boosted its reputation since the pandemic began last year, most notably in London, Scotland and Northern Ireland. According to new nationwide research from The Openwork Partnership, it's the under-35 age group who are valuing advice the most with 23% of those researched citing a higher interest.

Around one in 10 (9%) of people questioned within the study say they have a financial adviser they see regularly with 11% claiming to have seen advisers within the past year. The fact that 2.6 million said they had contacted a financial adviser or practice directly because of the pandemic shows the impact Covid-19 has had to how we are feeling about our financial futures and what we can do to create further security.

The value of advice has increased the most in London with 22% of Londoners proactively seeking out professional advice in the past 12 months. However although our interest may have been stimulated, even in the younger generations, there is still a gap between those reaching out to the right channels and those who either try to do it themselves or just have not yet got round to making that call.

As more young people have started to experiment with online investing, who have grown up consuming media digitally, there is a danger they will turn to influencers and connections who are not necessarily financially qualified before making what could be significant financial decisions.

In the last year advisers have helped 2.3 million people take out protection insurance and 2.39 million have been able to financially support their families due to the advice they had received. 16% claim their investments have grown, 12% have had clarity around their mortgage arrangements and 11% have benefited from pension growth.

Finding the right adviser can sometimes feel a little overwhelming and one of the reasons why our advisers are regularly receiving referrals from families and friends. As inter-generational wealth grows in line with ageing demographics and younger adults' desire to plan earlier, it's important that those in need do not miss out on vital support.

Market Report

October 2021

Global Review

Financial markets have continued to ebb and flow on news of the coronavirus and concerns over rising inflation, with the latter spiking to levels not seen in over a decade. The number of COVID-19 cases reported globally rose sharply in the third quarter as lockdown measures were eased causing further disruption to already fragile supply chains. This fed through into rising prices already stretched by low inventories and buoyant consumer demand.

As economic activity recovers to pre-pandemic levels and vaccine rates rise, central banks and governments are preparing for the removal of COVID-19 support measures, with reductions in quantitative easing programs and social support in the form of furlough schemes, temporary increases to benefits and tax breaks. Whilst the tapering of quantitative easing still provides significant support for financial markets it also provides a timetable for the first interest rate rises and eventual tightening of financial conditions.

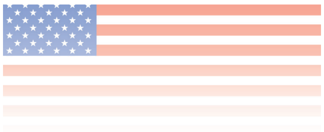
UK

The Governor of the Bank of England failed to rule out a hike in interest rates before Christmas after inflation surged 3.2% year-on-year in August. The jump from 2.0% in July was the largest month-on-month increase since records began.

The Office for National Statistics have suggested the spike in inflation will prove temporary indicating that food and recreation were the main contributors after the reopening of the economy coincided with last years 'Eat Out to Help Out' scheme, an initiative that saw many restaurants offering meals at half-price.

The Bank are also keenly aware that economic activity has yet to recover to pre-pandemic levels with GDP growth of just 0.1% in July curtailed by the 'pingdemic' of self-isolation messages from the NHS COVID-19 app. There is equal focus on the labour market and the possible impact this will have on the recovery with an estimated one million workers still covered by the governments furlough scheme when the program was wound up at the end of September.

US



The Chairman of the Federal Reserve has also warned that the US central bank would certainly respond should inflation remain persistently higher. Whilst year-on-year the CPI eased slightly to 5.3% in August from July's figure of 5.4%, there have been signs that inflation is broadening out across the economy. The labour market has been particularly competitive as companies try to fill the estimated eleven million job openings in the face of rising wage demands.

The Federal Reserve were already preparing financial markets for tighter conditions with an announcement that the tapering of quantitative easing measures could begin as early as November. Stickier inflation could see an acceleration of tapering and a shift forward in the hiking of interest rates, both sooner and faster than consensus forecasts were anticipating.

The US is also contending with another congressional stand-off over the debt ceiling with the Treasury secretary and former Fed Chair Janet Yellen warning that the US could run out of money as early as 18 October.

Europe

The European Central Bank are also arguing that inflation will be transitory despite energy prices driving the Eurozone CPI up by an estimated 3.4% in September. The estimate was once again ahead of expectations leading to calls for larger cuts in the Bank's asset purchase program. However, the Bank's President echoed warnings from the OECD that it was too early to withdraw stimulus measures with uncertainties around Covid and supply bottlenecks still a risk to the economic recovery.

The German federal election has again led to the need for a grand coalition with the centre-left Social Democrats in talks with the Greens and the liberal Free Democratic party to form what is being labelled as the traffic light coalition due to party colours. This would see Olaf Scholz succeed Angela Merkel as the new Chancellor with the latter choosing not to run again having been first elected in 2005.

Japan

Japan is also set to appoint a new head of government after Fumio Kishida won the leadership vote for the ruling Liberal Democratic Party following the resignation of the previous incumbent Yoshihide Suga in September.

Local equity markets reacted positively to Suga's departure but fell back on news of Kishida's win despite expectations that the new Prime Minister would not only maintain but probably extend the current levels of support for the economy. Kishida promptly delivered by calling for a new $270bn fiscal stimulus package.

The economy rebounded strongly in the second quarter but failed to recover the 1% lost in the first three months due to delays in the rollout of vaccinations.

Japan is still in a state of emergency due to COVID-19 and only recently achieved a 50% rate for full vaccinations, well behind global peers.

Restrictions are not expected to be eased before November and then only if a 60% target is met.

Asia

Chinese financial markets have been rocked by tighter regulation on technology and private education companies as well as the possibility that one of the country's largest companies, Evergrande, will default on its debt. In July the equity market suffered one of its worst monthly falls as overseas investors baulked at further government intervention, whilst Evergrande, with debts approaching £300bn, reportedly offered to pay loans with heavily discounted assets to stay solvent.

Conversely, equity markets in India have been hitting new all-time highs attracting comment from the Reserve Bank of India on stretched valuations that are amongst the highest in emerging market economies.

The acceleration of the digital economy due to the global pandemic in combination with the country's 500 million smart phone users has been a major driving force. India's central bank has also estimated that the economy may grow by up to 10% in the current fiscal year following an acceleration in vaccinations.

Shaping the world for future generations

With the United Nations Climate Change Conference (COP26) starting at the end of October and this year hosted by the UK, the desire to accelerate action towards meeting ambitious Government targets has never been more heightened. Although much has been mentioned in the media of the emissions targets and the switch to electric vehicles, sustainable and ethical investing has been gathering pace for some time.

Partly powered by the younger generation's overall challenge to past behaviours, research last year indicated that 85% of investors view climate change as the foremost long-term threat and have already begun to move their money into assets that can prove they have "greener" principles than the more traditional funds that had supported arms, tobacco and other "big polluters".

But it is not just the millennials who are driving these adjustments as inter-generational wealth is estimated to reach £5.5 trillion in the next 30 years (according to the King's Court Trust), so older family members still have opportunities to consider their future priorities, even within a legacy they leave behind. If invested wisely, all that wealth could be creating a significant impact for our grandchildren and future generations.

A recent report "Power of Advice" showed that younger members of the family (42%), influences within society (47%) and media content (53%) were the key factors in us choosing more sustainable investments.

The coverage in the media of investing responsibly has certainly intensified with the adoption of processes such as using paper packaging instead of plastic and the move towards hybrid and eventually fully electric vehicles. In a recent study by Prudential, 60% of millennials claimed the pandemic had heightened their focus on sustainability, with 44% of Generation X, and 25% of Baby boomers are also now proactively looking to invest more responsibly, many of whom were exploring these options long before the pandemic hit our shores.

Beneficiaries from future inheritances are far more likely now, to be asking either their senior family members or indeed their advisers, how this money is being invested, ie in funds that prioritise environmental, social and governance (ESG) factors.

If past portfolios have included companies that fall short of these strategies, it stands to reason they will be moved at the appropriate time, so it's logical to believe that companies dedicated to sustainability will be focusing on the long-term and therefore be more resilient. Which, of course, is good news for their performance, meaning that sustainable funds will eventually deliver higher returns than more conventional ones, a fact that has already been recorded within the last 10 years.

Health insurance demand soars

New research suggests that young adults are turning towards private healthcare in droves due to the unpredictable NHS waiting times and the warning of what could be a challenging and difficult winter.

The average age of those now choosing to invest in health insurance has dropped from 40 to 33 following the outbreak of Covid-19, clearly concerned as to how they would cope in the event of serious or long term illness which could impact their day to day lives and ability to earn.

In some areas of the UK planned procedures within the NHS range from 30 weeks to just over a year with an understandable heightened backlog created by the pandemic, with over 5.6 million of us believed to be on waiting lists for treatment and 150,000 people added each month.

Around 13% of Brits have existing health insurance and what is more concerning is the fact that patients who are solely reliant on the NHS are feeling forced to turn to loans and savings to pay for private medical procedures.

Within the workplace, companies are under further pressure to not only consider ways to introduce a healthy work/life balance but also provide enhanced health insurance cover and virtual health consultations according to a recent study carried out by Cigna Europe.

Whether you're an employee, self-employed or want that extra piece of mind individually, taking out a private medical insurance policy will help cover the costs of private consultations and treatment and can even give you cash back in covering anticipated expenses such as regular dental and optical costs.

This is not to be confused with critical illness cover or income protection which are totally different policies and therefore it's important to get impartial advice so you can make the right decisions to suit you and your family.

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