BIRCHWOOD INVESTMENT MANAGEMENT LTD
NEWSLETTER

January 2022

It's plain sailing...

The Cost of Living Crisis deepens...

The end may be finally in sight for the Covid pandemic; but the UK is now facing a new cost of living crisis this year; which could be worse than the financial crisis of 2008. With experts predicting that the average household in the UK will be £1,200 worse off in the coming months; just what can you do to prepare your family finances to weather the potential storm coming?

The last 2 years have been a massive struggle; affecting not only people's mental health but their family and business finances. Businesses have battled to stay afloat and families have lost their incomes or had to take a complete change in career direction just to survive; if their particular industry was hit badly with little or no government support.

Whilst the majority of companies were bailed out in the form of furlough and bounce back loans, it has still put a tremendous strain on many families who may already have been close to the bread line.

With energy prices already rising and fixed tariff's disappearing from the market; the government is due to revise the energy price cap in February which could bring further increases as high as 50%. This could mean some households having to choose between heating and eating and will swiftly be followed by potential tax increases, inflation rises (mainly caused by the high energy bills) and a National Insurance rise which is due in April.

According to Paul Johnson, the Director of the independent think tank the 'Institute for Fiscal Studies' (IFS), "If you are someone on average earnings who is going to be hit by a tax rise as a result of the reduction of the personal allowance, and a tax rise because of national insurance, and an extra potential several hundred pounds a year from fuel prices, then this could well be worse than the financial crisis."

Covid-19 has caused major global distribution issues due to pent-up demand and shipping delays with factories suffering due to lockdowns and workers in isolation, which has therefore led to price increases. This along with the shortages of HGV drivers leaving the UK following Brexit has meant wage increases for new drivers which has then pushed up food prices.

January is typically the time of year when we assess our finances and see what we can do to spend more efficiently and cut back on areas where we are over-spending and this year it is even more vital to off-set the upcoming rises.

The best place to start is your monthly bank statement, to assess exactly what you are paying out each month from the essentials like your mortgage and household bills through to items including TV subscriptions and nights out/treats.

Comparing your utility bills and insurance policies can be a time-consuming job, but it is worth putting them through a comparison site on an annual basis to make sure you are getting the best deals. If you just let them auto renew each year, this often means they are increasing considerably and by comparing them you can potentially save yourself hundreds of pounds a year. Also check if your different insurances have some of the same benefits, as often you may be doubling up.

Put any new policies through a cashback site to get an even better deal and this is definitely worth doing for bigger expenses like holidays and household appliances. Many sites offer welcome deals which can be another way of making your household budgets stretch further. Consider whether you still need (and actually use) your gym membership and review your TV subscriptions to see if you are still using them and if you are getting the best deal? During lockdown many people signed up to new services like Spotify, Netflix or Sky and now no longer use them but have completely forgotten they are still paying....*cont*

The Cost of Living Crisis deepens cont...

There is often little difference (or sometimes no difference) in quality between a supermarket home brand and a more expensive option; as in most cases they are made in the same place.

Set yourself a weekly budget and consider online food shopping to stop yourself picking up all those extra items you just don't need and make the most of the supermarket loyalty schemes to help your money go even further.

It can also pay to review your financial assets as we often forget what we have sitting in different accounts. If you have cash sitting in an account that is getting little interest on it, why not take the plunge and move some of this to the stock market to see if you can make more on your money?

Always try and save for a rainy day (which has proved even more important so over the last 2 years) and keep some money for emergencies. At least six months' salary is sensible (or 2 years of necessary expenditure if you're already retired) as this would tide you over until you can achieve a new income.

If you have debt (excluding your mortgage) look at what you can do to downsize it; whether it is shopping online accounts, shop cards, or an overdraft. Anything you can do to pay these smaller bills off will make you feel happier and less stressed.

For those with healthier finances; consider overpaying your mortgage (if there are no penalties) as it's surprising how much you save in interest by paying off even an extra £100 a month.

When did you last look at your pension; as if you have changed jobs several times over the years; you may have a number of different pension pots?

If your individual schemes allow; it can sometimes be worth consolidating all of your smaller pensions into one bigger pension pot to make it easier to keep track of and check you are getting the best return on your investments. It is always advisable to speak to a financial advisor first though, rather than just pulling your money out of a scheme.

The next few months are poised to be very challenging financially; but by working through your finances and making some small changes now you can protect yourself and be prepared as much as is possible before these considerable rises come into place.

Don't let divorce swallow your pension

The first working Monday in the month of January has historically been referred to as Divorce Day at least if you're a lawyer or work within the legal profession. Whilst the enforced lockdowns of Covid-19 may have changed this landmark day somewhat, the pressures of Christmas and having to spend more time with family and loved ones can sadly exacerbate those relationships that were previously teetering on a knife edge.

Understandably the emotional toll divorce takes on both parties can be very significant and none more so than when financial matters have to be addressed. Whereas in the past, the perception may have been that the wife takes a higher proportion due to childcare and the ability to continue in the lifestyle they're accustomed to, changes to divorce laws in the last few years have meant that it's a much more streamlined approach starting at pooling resources 50:50 and then beginning the negotiation.

Both parties are likely to have more of an emotional attachment to their home than they are to their pensions, but it can prove to be a considerable mistake if one side agrees to give up all rights to their spouse's pension in order to keep the home, if that person is then unable to build up a pension pot in their own right. This could be due to age, career choices and career breaks in order to have children.

According to Which, only 15% of couples include their pensions within their financial divorce settlements, however they can represent 42% of total household wealth according to the Office for National Statistics (ONS). In contrast property wealth makes up 36%.

Although more women are now finding themselves the higher earners in households, traditionally they are still quite severely trailing behind men with the average married woman aged 65-69 having just £28,000 in pension wealth; men have in the region of ten times more than this.

Consequently if the husband, or higher earner has paid a substantial amount into a pension during the marriage, all aspects of "needs" have to be taken into consideration for both sides so it is as "fair" as possible.

There are different ways in which a pension can be split. The first is simply to offset the pension against another asset, ie the former matrimonial home, often known as "a clean break". This can be ideal if the party who surrenders their share is able to then go onto save enough themselves for their future retirement, otherwise they could face financial difficulties in later life.

The second option is a pension sharing order where a percentage of one party's pension is transferred to the other with both sides having their own individual pensions. The third option is a pension attachment where one side must pay a lump sum or income to the other when they start drawing their pension. This is a form of maintenance so there is no clean break and the pension holder retains the control of how the money is invested and when payments are made.

There is also the issue of tax consequences especially if large pensions are involved that could breach the lifetime allowance which is currently £1,073,100. Transitional protection can affect both parties and in some instances can result in the loss of all tax protection.

Whilst we hope that no one reading this article is either contemplating, or is in the middle of a divorce situation if you know someone who is we would always recommend professional financial advice is sought, rather than any DIY style divorce which although could initially promise to save you money, is more likely to incur you further expenses at a later date.

Market Report

January 2022

Global Review

Stronger than expected corporate profits in the US propelled global equities to new highs in October before inflation and coronavirus concerns saw markets track sideways for the remainder of the year. Over 80% of companies listed on the S&P 500, a benchmark of the largest companies in the US, beat earnings expectations in the third quarter driven by buoyant consumer demand.

With coronavirus restrictions lifted and excess savings at record highs, consumers have returned with gusto undeterred by rising prices.

Central banks have shifted their stance on inflation conceding that price rises will be more sustained than first thought after recent inflation prints hit levels not seen since the 1980's.

This has seen a rapid shift in expectations for the timing of interest rate hikes in the US with the first moves now forecast for early 2022, a year ahead of early projections.

UK

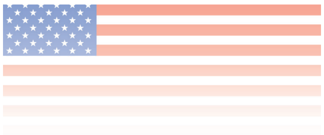
The Bank of England raised interest rates from 0.1% to 0.25% at the December meeting of the Monetary Policy Committee. Having surprised markets with the decision not to act in November, the Bank cited tightness in the labour market and surging inflation after the latest reading for the latter jumped to a new decade high of 5.1%.

Despite warnings from the International Monetary Fund against inaction, there had been doubt the Bank would act in the face of rising Omicron infections that could force a further lockdown.

The Bank's decision to delay the first rate hike was swayed by a stalling economy, with UK GDP expanding by just 0.1% in October. This left economic activity still 0.5% below pre-pandemic levels with consumer facing services a major drag. Supply chain issues, worker shortages and rising inflation have all been blamed.

With Covid, national insurance hikes and higher energy prices all potential headwinds, further rate hikes will need to be carefully considered.

US



The US Federal Reserve held back from raising interest rates in December but did announce that quantitative easing via its program of bond purchases would be reduced at an accelerated pace. This would indicate the end of bond purchases by as early as March, shifting forward the first hike in interest rates.

At September's meeting the central bank members were evenly split on the need for higher rates but the recent policy meeting notes now suggest three hikes in 2022.

US inflation hit a 40-year high of 6.8% in October forcing the newly re-elected Federal Reserve Chairman, Jerome Powell, to concede that he could no longer characterise inflation as transitory. Up from 6.2% in September and multiple times the central bank's mandated target of 2%, markets were beginning to question policy inaction. The Federal Reserve risks the need for an overreaction in the future to bring inflation under control should they fall too far behind the curve.

Europe

The European Central Bank are also struggling to maintain confidence after eurozone inflation hit 4.9% in November, largely due to a jump in energy prices that rose 27% during the month. Whilst the Bank is due to end bond purchases under the €1.85tn Pandemic Emergency Purchase Programme in March, the Governing Council plans to expand quantitative easing under the pre-existing asset purchase programme. The timetable for purchases suggests that the Bank will not consider raising interest rates in 2022.

The need for continued stimulus at current levels has been questioned but the ECB remain dovish with concerns that a sustained period of higher prices and the Omicron covid variant may subdue demand. The Bank has cut its economic growth forecast for the region in 2022 whilst nearly doubling its inflation forecast. At the same time, coronavirus infections have passed previous peaks, prompting a series of new travel restrictions with the Netherlands the first to introduce new lockdown measures.

Japan

Confirmed cases of coronavirus in Japan peaked two weeks after the Tokyo Olympic Games and have fallen steadily since with, as yet, no sign of a sixth wave driven by the Omicron variant. The acceleration of the country's vaccination program prior to the Games and the social norm of wearing a face covering have been credited with curbing new infections.

However, economic activity contracted at an annualised rate of 3.6% in the third quarter with the country still in a state of emergency at the time.

The slow response to coronavirus and poor economic performance was expected to undermine support for the ruling Liberal Democratic Party but the incumbent government returned an unexpected majority in the recent general election. This allowed new Prime Minister Fumio Kishida to move forward with a $690bn spending package, including a record $490 of fiscal measures, that is expected to boost GDP by as much as 1.5%.

Asia

Equity markets in China have struggled to make ground as concerns remain over the impact of increased regulation introduced by government in the summer to tackle monopolies, data privacy and inequality. The economy is also struggling with the authority's strict covid restrictions as well as possible contagion from the failure of Evergrande, the country's largest real estate firm, to pay its debts. As other central banks are considering hiking interest rates, the People's Bank of China have been forced to cut the cost lending.

By contrast, equity markets in India returned over 20% in 2021 after two years of lacklustre performance. A strong economic rebound from the covid low and strong interest from both domestic and overseas investors at the expense of China helped push share prices to new highs.

GDP growth last year is expected to exceed 8% with estimates suggesting the Indian economy will surpass that of Japan, the world's third largest, by the end of the decade.

How would you rate your financial wellbeing?

When we talk about financial health or wellbeing, how much money you have saved, and how many assets you own is only a part of the conversation. What we should also be asking is have we identified what makes us happy and then what steps are we taking to reach that destination.

Applied to money, are the ways in which we're spending our money increasing our wellbeing? We could be hoarding money without spending it, buying things we don't really need which only provides a transient satisfaction or if you're saving more than you need, ask yourself if is this really going to be beneficial to your wellbeing in the long run?

Our financial health is closely linked to our mental health, so what are the ways in which you can help your financial wellbeing in 2022?

After almost two years of a global pandemic a recent employee survey by PWC showed that the highest cause of stress was financial, especially amongst younger employees. Assessing where you are now and focusing on your income versus expenditure is the best place to start. We use fitness apps to track our steps, calories and exercise each day, but don't think to do the same for our finances!

Total up all your assets – you may be surprised! Then look at how you're managing your money, are there improvements you can make? Are there any gaps that you can fill? Getting a comprehensive understanding of your financial position is key to building more financial confidence.

If you're struggling to save for the sake of saving, make short, medium or longer term goals – again ask yourself what you are saving for and why? Having these goals will help you to stay on track to reach them and getting organised is the first step. You may find by recording all your outgoings that areas start to be identified that you can cut, or alter to free up more disposable income.

Try and pay off those higher interest debts that you may have only been paying the minimum payments on. Facing things head on and making a realistic plan is always the best way to deal with unwanted debt.

If you're unhappy in your job, is it time to focus on a new career? Whilst there maybe security in receiving your current monthly pay check would you be happier retraining or starting a side hustle that could turn into your main income? Remember we tend to spend more when we're generally unhappy as a way to boost our mood in that moment, however short it may be.

Deciding what you actually "need" financially, to live on is key. You may find you need a lot less than you think you do, so how can you use that surplus income? Divide your income into 3 sections – need, wants and saving/paying off debt and then start planning how you can use any surplus to make you happier. Making memories and enjoying new experiences can create far longer lasting happiness than buying more "stuff."

The act of philanthropy and donating money can also greatly improve our wellbeing. Knowing that a gift you make can create a hugely positive outcome to an individual or collective is almost priceless within itself.

Have you taken care of your loved ones should something awful happen? Around 30 million of us do not yet have a will meaning your estate will be divided under the Rules of Intestacy and your family may not receive what you would like them to.

Similarly Lasting Powers of Attorney (LPA) safeguard us in the event of severe mental impairment – both types of LPA, health and welfare and property and financial affairs could mean our family/friends can look after us should the unthinkable happen.

The better we can become educated financially, through continuing to obtain professional financial advice, means we're more likely to take this knowledge and make changes. Demystifying some of the jargon and terminology within the investing and savings world will enable us to take steps forward and create a positive impact on our financial wellbeing.

Women still feeling the financial impact of Covid-19

Women are continuing to feel the effects of the pandemic with a fifth worrying they will be worse off financially should there be another enforced lockdown.

According to recent research 22% of women are in a worse financial position than last year as compared with 18% of men. In contrast 22% of men claim to be financially better off YOY and would feel better equipped to face another lockdown head on.

Coupled with the rise in inflation 33% of women were unable to save money in December despite the reduction in social activities whereas only 25% of men found themselves in the same position, partly due to there being about a third more women in the UK working in sectors that were adversely affected or forced to close due to the Omicron breakout. Women also tend to be more responsible for providing childcare or even care for more elderly family members.

46% of women were able to make extra savings but the amount saved was half of the figure that 50% of men were able to save (£2628 vs £5335 respectively).

It is clear the financial gender inequality has been worsened by Covid-19 and is not showing many signs of abating in the short term.

Women should be encouraged to become more confident around money and their financial prospects, with the Government being called upon to do more to help them get their careers back on track. Getting access to professional advice, products and services is also crucial to empowering women to start addressing the financial gender gap for later life planning.

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