BIRCHWOOD
INVESTMENT
MANAGEMENT LTD
NEWSLETTER

October 2022

It's plain sailing...

Top Ten Tips for Cutting your Spending during the Cost-of-living Crisis

According to You Gov's new cost-of-living tracker*, more than eight in ten Britons (85%) say that they have already made cuts to their usual spending, or expect to do so shortly - as the cost-of-living crisis rages on. As inflation continues to soar and the Bank of England is forced to keep raising interest rates to try and control it, we are all now affected in one way or another. You may have a fixed rate mortgage shortly due to finish; your energy bills have increased or you are struggling with the rapidly rising cost of food and everyday essentials.

According to You Gov's new cost-of-living tracker, more than eight in ten Britons (85%) say that they have already made cuts to their usual spending, or expect to do so shortly - as the cost-of-living crisis rages on. As inflation continues to soar and the Bank of England is forced to keep raising interest rates to try and control it, we are all now affected in one way or another. You may have a fixed rate mortgage shortly due to finish; your energy bills have increased or you are struggling with the rapidly rising cost of food and everyday essentials.

1. Start with a 'money health check' and set a budget

The first and most important tip is to know your current financial situation and what is coming in income wise, and going out on regular direct debits, loans and other payments. Look at your regular monthly bills (mortgage, house bills, insurances and petrol) and then review your other outgoings (food, clothes and fun items). Include any savings or investments, pension contributions or debt repayments and make sure you include any annual one-off costs like car or house insurance, holidays, a new piece of furniture for the house or Christmas presents. Take the total figure for each annual cost and divide it by 12 to get the monthly outlay.

A great way to keep track of your money is by setting yourself a monthly budget. This can be in paper form, in a spreadsheet or via one of the many budgeting apps available to give you an overview of your spending habits. Many budgeting apps also allow you to link multiple bank accounts to them which helps you regularly keep track of your overall spending and any unnecessary costs.

2. Cancel any unnecessary direct debits

By giving yourself a money health check, you can keep an eye on your direct debit payments and cancel anything that you're not using, like old subscriptions or gym memberships. It is recommended to get into the habit of logging into your online bank account on a monthly basis to check your statements. That way you can make sure there aren't any payments you are incurring that are incorrect or have changed without you realising.

3. Check your bank account overdraft fees

If you go overdrawn and don't have an agreed overdraft in place, this can prove costly. If your bank charges a high rate of interest, it is worth checking to see if you can switch to an account that offers a lower one. Many banks offer switching bonuses like First Direct who offer £175 to new customers and Nationwide is currently offering £200.

4. Transfer credit card debt

Even if you don't need to use a credit card to survive each month, many people use it to pay for larger items like holidays to get buyer protection for that purchase. Although this is a good way of protecting yourself, it is also where you can get caught out if you don't then pay it all back straightaway. If this is the case just make sure you have it sitting on a 0% balance transfer credit card, as this type of credit card doesn't charge interest on transferred debts for a set amount of time.

You therefore, have time to repay the balance and it will save you on paying interest. However, just remember to make a note of when the interest free period ends, so that you either pay off the balance in full beforehand or switch it to another 0% balance transfer card.

5. Undertake a regular price comparison of your policies and products

When it comes to our insurance policies, mobile bills or utility bills; it really pays to regularly compare them via a price comparison website to make sure you are getting the best deal. This could be yearly or possibly 18-24 months for some products/services depending on what your contract period is. There are also some providers who offer greater discounts for bundling all your policies and utilities together which are worth considering.

6. Reduce your tax bill

Another way to cut your costs is via your tax bill, by checking you are claiming all the tax reliefs and allowances you may be entitled to. This ranges from marriage allowance to tax relief like the Rent-a-Room scheme where those people renting out a room, rather than a whole property, can earn up to £7,500 tax-free.

7. Sign up for cashback schemes and store loyalty cards

Evaluate the retailers, restaurants and supermarkets that you regularly shop in to see if you are making the most of any loyalty schemes, one-off discounts and deals. Many offer points for what you spend in store which you can claim back as money off vouchers or double up to use towards days out and other venues....*cont*

Top Ten Tips cont......

8. Check when your Mortgage expires

Over the last few years; mortgage interest rates have been extremely low, but are now rapidly rising. Therefore, if you are on a current fixed rate mortgage, check when it is due to expire. If it is due for renewal in the next 6 months, it is worth speaking to an Independent Mortgage Advisor now to see if it is worth exiting your current deal (even if you have exit fees) to grab a new fixed rate. Alternatively, if you are on a variable rate; consider a fixed-rate deal to protect your outgoings from the next rate rises expected this year.

9 Try to tackle your energy use at home

Recent research from GoCompare has shown that 83 per cent of billpayers have seen their energy bills go up this year. Even with the government's ever-changing price cap freeze, our bills are still higher than last winter. However, there are steps you can take at home to try to reduce bills. Make sure your heating is on a timer, but if you're going out then turn the radiators down or off. Installing thermostatic radiator valves will also save approximately 18% per cent on your current heating bills.

Remember to switch off any unused appliances, chargers, TVs, computers and don't fall foul to vampire appliances. This is the electricals which are left on standby, as they still use energy. Switch off your lights if a room is empty and replace all your bulbs in your home with LED lights. By doing so, you could save £45 a year on bills. Also try using your washing machine at 20°C instead of 40°C which can reduce the running costs by around 62%.

10. Make the most of any savings' account rates

If you are lucky enough to have any spare money sitting in a savings account, make the most of the current higher rates and move it to a high interest fixed account. Make sure you have at least 3-6 months' worth of expenses set aside for any unexpected costs though, before fixing any spare cash. Look at whether you are also maximising your tax-free options such as ISAs (Individual Savings Account) and Sipps (self-invested personal pensions). You can save up to £20,000 a year into an ISA with no tax payable on your investments when you sell them or on any dividend income earned. Alternatively, a Sipp allows your money to grow free from income tax and capital gains tax, and the Government top up your contributions of £40,000 gross by 20%.

How are interest rates affecting equity release?

Earlier this month, the Bank of England announced its sixth rate rise this year, bringing the base rate from 0.5% to 2.25% and depending on how the next few weeks develop politically and fiscally, rates of up to 6% have even been discussed for 2023.

Whilst this may be good news for savers, for anyone borrowing money, especially those on variable rate mortgages, the media could currently be quite a bleak place to dwell. This is also the case if you're coming towards the end of your working life, or indeed are already retired, and may be considering releasing funds from your property wealth to increase your standard of living.

Equity release loans have had somewhat of a surge this year, with the second quarter of 2022 seeing a 26% increase in the number of new equity release mortgages versus last year, totalling £1.6 billion being released in later-life mortgages. According to Age Partnerships the primary reason was to pay off standard mortgages, with a 50% rise in enquiries in August alone (vs 2021) and Canada Life say one in five homeowners were looking to release equity to cover soaring bills.

However with the recent uncertainty in the financial markets, equity release products have also fallen prey to spiralling interest rates with rates altering from 4.44% to 6.87% in a week. Whilst homeowners withdraw equity from their homes only to repay the loan after they pass away or go into long-term care, it is not insurmountable to predict that a new loan of £50,000 taken out today could levy an interest charge of £20,000 over a 10 year period which would, therefore, reduce the amount available either for inheritance, or indeed to pay those vital care costs.

Fortunately for those who have already secured equity release loans, their interest rates will not be adversely affected, as these are fixed for the duration of the loan, and some homeowners can avoid hefty interest charges by releasing a lump sum but only drawing down exactly what they need – interest is only charged on the amount drawn down.

However it goes without saying that releasing wealth in this way is not something to do without serious consideration and professional advice. It may be more beneficial to downsize, rent a room out in your property, look at a standard loan, or look at other assets such as savings. There are now several options available such as the new retirement interest-only (Rio) mortgage and some lenders will even lend traditional mortgages to people in their 80's and 90's but you will need to produce a sound plan for repaying the capital.

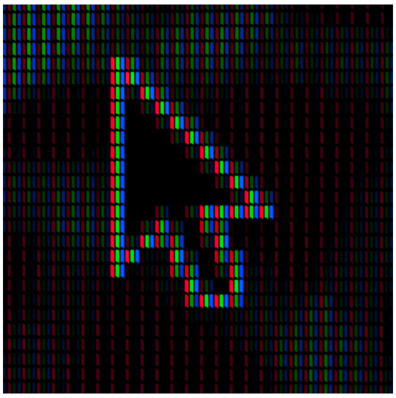
Only one in 10 people aged 65 and over want to downsize so discuss it with family and take your time to find the right options for you.

Announcing a new resource...

After listening to your feedback, during the first quarter of 2023, we are aiming to bring you the option of receiving your valuations online, rather than through the post. This will be optional, so if preferred you can continue to receive the current printed versions, however if you would like to move these online, we will shortly send a link by email where you can register your interest, so we can make sure you are opted in.

To access these digital valuations, you will need to log into the Client Portal, so if you have not yet registered for this resource, we can do this at the same time. For security reasons, all the valuations will be stored securely on our portal and will never be sent via email or any other platform.

Moving our valuations to a digital format will help us achieve our sustainability goals in reducing the amount of paper and physical collateral we need to produce, whilst still ensuring our clients receive the same level of service and detail we currently provide. It will also mean you have far more of a 360 degree of your finances at your fingertips, whenever you wish to access it. If you have any questions on this, please contact your Financial Adviser.



Market Report

October 2022

Global Review

Global equity markets rallied over much of the summer as economic activity showed signs of slowing and thereby raised expectations that central banks could ease the pace of interest rate hikes. However, equity indices subsequently revisited their 2022 lows after US Federal Reserve Chair Jerome Powell restated the central bank's commitment to stemming inflation with prices remaining stubbornly high.

Reciprocal moves from both the European Central Bank and Bank of England added to concerns that interest rates would move faster and higher than initially anticipated.

Inflation prints continue to be higher than forecast driven by the energy crisis but there is evidence that prices more broadly may have peaked with supply constraints beginning to ease.

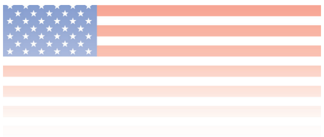
Energy prices continue to climb as Russian manipulation of supply has seen gas prices soar on the continent. Governments have stepped in to support consumers with fiscal measures that dwarf the stimulus introduced during the COVID-19 crisis, but these actions are likely to create an additional inflationary pulse causing further upward pressure on interest rates.

UK

The introduction of an energy price cap in the UK was delayed until after the election of a new Conservative Party leader following the resignation of Boris Johnson. Incoming Prime Minister Liz Truss and Chancellor Kwasi Kwarteng announced the cap as part of a mini budget aimed at boosting growth. The size and scope of the budget, including some surprise measures together with the suggestion of additional planned spending, panicked markets with the Chancellor providing no statement on how the package would be funded.

With some estimates putting the cost of the mini budget as high as £200bn and the assumption that this would be funded by additional borrowing in the gilt markets, government bonds sold off dramatically. The Bank of England were forced to step in to provide stability via a facility to purchase gilts with many pension funds caught in a vicious cycle of selling as they sought to raise liquidity.

US



Having delayed the first rise in interest rates until their March meeting, the US Federal Reserve have implemented three consecutive 0.75% hikes with inflation remaining stubbornly above 8% for much of the year. Fed Chair Jerome Powell has signalled to markets that price stability is the Bank's main focus and to expect rate hikes to continue into 2023 causing some pain for households and businesses. Consensus is forming that only an economic recession will bring inflation back close to target levels with markets implying a further 1.35% of hikes in the current cycle.

Whilst US economic activity did contract in both the first and second quarters, the jobs market and wage growth remain strong, resulting in no formal declaration of recession.

The labour market is a key indicator of economic strength for the Federal Reserve and a pivot away from hiking rates is unlikely until there is clear evidence of a decline in employment numbers.

Europe

The European Central Bank also delayed their first rate hike decision, waiting until July to move away from negative interest rates with the invasion of Ukraine threatening to destabilise the region. However, both economic growth and employment have moved higher over the first two quarters of the year, accompanied by persistently high inflation of close to 10%. This prompted the ECB to accelerate tightening in September with a 0.75% hike in rates, matching the aggressive moves of the US Federal Reserve.

The former head of the ECB, Mario Draghi, resigned as Italian Prime Minister in July after the collapse of the ruling coalition government. As expected, Far-right leader Giorgia Meloni claimed victory in the subsequent general election with promises to place national interests at the top of the agenda. The incoming PM will look to renegotiate the reforms required by the European Commission to qualify for payments from a central Covid recovery fund as the country struggles with the energy crisis and the rising cost of borrowing.

Japan

Japan's ruling coalition government increased its majority in July's Upper House elections setting a three year pathway for Prime Minister Fumio Kishida to advance economic reform in the country.

Having already approved a relief package to help households deal with rising prices in May, Kishida has called for further stimulus to tackle inflation as well as encourage pay increases. Japan's core inflation has been accelerating toward 3% with the Prime Minister asking major companies to at least match this number during wage negotiations.

The government recently ordered the Bank of Japan to spend $20bn in support of the yen with its value declining 20% this year versus the US dollar. Japan's currency has been in steady decline as the Bank continues to keep interest rates low whilst the US Federal Reserve tightens policy aggressively. The yen's historic slide continues to erode consumer spending power as imports, particularly food and energy, become more expensive.

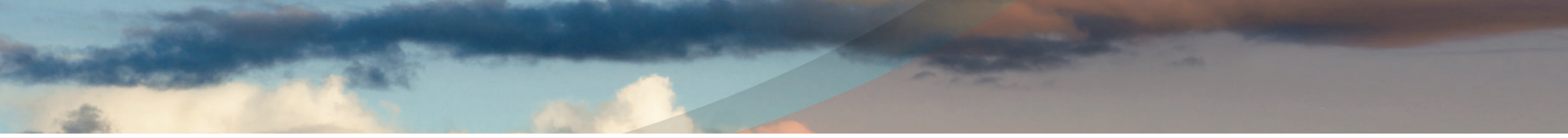
Asia

The Chinese Communist Party is set to hold it's 20th National Party Congress during which membership of the Central Committee, a panel of the country's top decision makers, is approved. President Xi Jinping is expected to be named as General Secretary for an unprecedented third term.

With leadership set for the next five years, it is anticipated that the administration will introduce further economic support to deal with contagion from the country's real estate crisis and provide impetus post strict Covid lockdown measures.

India is set to become a major beneficiary of China's zero tolerance Covid policy with a growing number of international companies adopting a 'China plus one' strategy. This diversifies operations outside of China to avoid further disruption to current supply chains.

Cases of Covid in India have been falling sharply since peaking in May and the country offers the benefits of a large domestic market with low labour costs.



Can you make a decent return on your investment whilst making a positive change

Whether your investment portfolio involves smaller businesses or blue-chip companies, the majority of us want to try and do our bit to help the environment. The latest figures from the Investment Association have revealed that funds under management with responsible criteria have rocketed from £34bn to £89bn in 2021, which is a massive 62% increase. However, as a regular investor, you may well have asked yourself if you can make a decent return on your investment whilst making a positive change?

Sustainable investing is when you invest in companies that aim to have a positive impact on the world by helping combat climate change, minimising environmental destruction, whilst also promoting corporate responsibility. It means an investor looks at a company's environmental, social, and corporate governance (ESG) factors and uses their individual investment as a tool to promote positive social impact and encourage corporate responsibility without sacrificing their own long-term financial returns. Recent research conducted by Fidelity found that 46% of UK adults wanted their cash to make a positive change, with 30% saying that the events of the last year had encouraged them to invest or save more sustainably.

What is the difference between traditional and sustainable investing?
Traditional investing involves investing capital into opportunities that carry risks proportionate with expected returns. Whereas sustainable investing involves balancing traditional investing with ESG awareness to improve the long-term outcomes. However, sustainable investing (or responsible investing) means different things to different people.

Some investment funds may prioritise companies that treat their shareholders well, whereas others refuse to invest in certain sectors or companies. It all comes down to the objective of a particular fund and who is in charge.

What are the different types of sustainable investment?
Sustainable investing can be referred to by different names including ethical investing, environmental, social and governance (ESG) investing, impact investing, socially responsible investing (SRI), values-based investing, conscious investing and green investing. Whilst they roughly all mean the same thing, there are some key differences in the way they work, which are important to know before you choose how to invest. This is where it is beneficial to take a closer look at some of the main approaches and what they involve.

Ethical investing
Ethical investing tries to actively avoid companies or industries that might have a negative impact on society and the environment which is called negative screening. This normally means avoiding sectors such as tobacco, animal testing, gambling and oil and gas.

ESG investing
ESG investing selects companies that meet specific environmental, social and governance requirements and is less restrictive than ethical investing. It considers companies that are adapting to change such as oil companies that invest in clean energy.

Impact investing
This investment approach actively selects companies whose positive impact on the world can be measured and may include for example, those who save a certain amount of water or generate a specific amount of recycling.

Why is Sustainable investing important?
Investors choose sustainable funds to help create a better world by helping nations, companies and societies to develop, innovate and grow. This means you are not only investing in your own future, but are investing in positive change and progress. When you invest in companies it is likely you will want to know where your money is going and by investing sustainably, more of your money is supporting companies that are making a difference. Additionally Sustainable investing recognises that companies who are trying to solve the world's biggest challenges could very well be the ones most likely to grow.

Can you really make a decent return on your investment whilst making a positive change?
The answer is yes you can as an increasing number of investment funds are managing to make money in ethical ways, with more and more investors choosing to invest in them. It is absolutely possible to invest with a conscience whilst at the same time making a profit. Environmental and social issues can impact share prices but by factoring these into your investments, you could help reduce the level of risk, increase the resilience of your investments and deliver long-term capital growth.

The companies that are more likely to succeed in the long term are the ones who can create value for all stakeholders (including the environment and society) as well as delivering stronger financial returns for shareholders and investors. However, it always helps to remember that the value of any investment can fall as well as rise and you may not get back what you invest. When it comes to Sustainable investments, it should be seen as a medium to long-term commitment and you should be prepared to invest for at least five years.

Birchwood Investment Management Ltd, 8 Prospect Place • Welwyn • Hertfordshire AL6 9EN • UK
Tel: 01438 840 888 (Welwyn) • 0161 932 1038 (Manchester) • **Fax:** 01438 840 097 • **Email:** info@birchwoodinvestment.com