BIRCHWOOD
INVESTMENT
MANAGEMENT LTD
NEWSLETTER

July 2024

It's plain sailing...

Why Baby Boomers' Wealth is Causing a Record Number of Probate Disputes

Having a Will in place is vital when it comes to ensuring your estate is divided in the way you wish, but record number of wills are now being contested, with around 10,000 people disputing their inheritance every year.

Millennials (those born between 1981 – 1996) are about to inherit £71 trillion in assets in the UK alone, which is the biggest fortune yet by a generation as their baby boomer parents die (those born between 1946 – 1964). This has meant that more than double the number of probate disputes were taken to the High Court in the first nine months of 2023, than in the same period in 2016.

Baby boomers have been lucky enough to benefit from decades of house price growth, and their beneficiaries can therefore, expect lump sums and family homes. The sum is expected to equal on average £500,000 for the wealthiest 10% and around £372,000 for the top 20% of millennials.

However, on the flipside, this will unfortunately result in thousands of lawsuits from family members, relationship fall-outs and legal action, with the real number of these unknown as most are settled out of court.

Baby boomers are in the retirement phase of their lives and the over-50s now hold 78% of all the UK's privately owned housing wealth; with the over 65's being the wealthiest overall age group as they own property worth £2.587 trillion net. The total housing stock owned by over-65s was valued at £2.735 trillion with £2.038 trillion of this being mortgage free.

The younger generation has seen a fall in mortgaged homeownership over the last year, whereas older homeowners have benefitted from the bulk of growth in housing wealth over the last 10 years. This is thought to be mainly down to those who took advantage of the boom in homeownership in the later part of the 20th century, meaning they have now paid off their mortgage debts.

It is not just physical and financial assets that need to be protected in your will, in this day and age, there is also the matter of digital assets. These include photos, Cryptocurrency, social media accounts and even royalties from Instagram & YouTube profiles. All these can generate substantial incomes and need to be considered as assets.

Another big cause of family fall-outs which is becoming more common when it comes to inheritance is 'generation skipping', where family members are bypassing their children and passing assets directly to their grand-children. This act of 'skipping' a generation can significantly lower the amount of Inheritance Tax which is applied each time that wealth is passed down a generation; passing it down only once instead of twice, means the taxable amount is lowered.

Family members who seek to take legal action against each other, are often naive with regards to the substantial legal costs involved, believing they will get a quick solution and receive what they feel they are owed.

Sadly, much of this inheritance can end up being lost paying for years of legal fees when it doesn't get easily resolved. Once you add 40% inheritance tax on any assets above the £325,000 threshold, this can then result in a financial black hole. Last year a record £7.5bn was paid in inheritance tax, with forecasts suggesting another £2bn hike by the turn of the decade.

It is always sad and unsettling when a family member dies, but if you have things in place to try and avoid any family disputes it can make all the difference. Getting expert inheritance planning advice and making sure that all beneficiaries know your wishes, can help avoid any issues when the time comes (and hopefully any fall-outs between family members).

If you need inheritance planning advice, please get in touch with our specialised team at Birchwood Investment Management.

How to spot phishing emails

Unfortunately none of us are immune from the rise in "phishing", which is where criminals use scam emails, text messages or telephone calls pretending to be someone else – usually a credible business – to entice you to click a link, open an attachment or steal bank details.

How these people obtain email addresses can vary from using "harvesting programs" that use automated tools called 'bots' to crawl the internet scraping addresses from different pages, or underground cybercrime forums where sadly our data is bought and sold.

They also use what is termed as "brute force attacks" by randomly entering data in different sequences and combinations until they achieve success; then finally, the use of CC (carbon copying) on several emails sent to the same addresses repetitively can also increase the risk of exposing the copied in email addresses.

It's important to note that criminals are harvesting email addresses only; their aim is to try and uncover more personal details through the next point of contact, which as we have recently seen here at Birchwood Investment Management, has been by email.

Some of the ways you can spot phishing emails are:

- One of the biggest giveaways is the email address the email has been sent from. Although the name in the inbox may be familiar, always check the domain name, ie xxxx@domain.com. Scammers will use a series of different email domains which are often numbers and letters, and the com could be from a different country ie .au
- Check the content – ie there could be grammatical errors and the language used could differ from the person you think the email has been sent from. If it doesn't sound like them – be vigilant.
- Often wording is used to try and fool spam filters where upper case letters or even special characters are used such as "indiAgo" instead of "indigo."
- If the email purports to provide an offer that is too good to be true – it probably is! Similarly if there is an urgency behind the content ie encouraging you not to miss a deadline, open a statement of account or to pay a invoice by a certain date which is usually imminent – stop and check.
- Emails can encourage you to click on links that redirect you to other pages which are highly likely to contain malware that could infiltrate your device.

If you are unsure, prior to clicking on any links or opening any attachments, contact the organisation by telephone and ask them if they have sent you this email.

We would also encourage you to contact us via our client portal which is a secure platform with two factor authentication that holds your personal information or by telephone The recent phishing attacks we have experienced have not in any way been able to access this platform. On our portal you will see any documentation we have added, and you can contact us directly to check if any communication you have received has been legitimately sent by ourselves. If you have not yet registered on our client portal, please contact your financial adviser or telephone us on 01438 840888.

We understand these phishing incidents raise concerns about the safety of your data. Please rest assured our IT systems are consistently being updated and checked and we take the handling of your personal data very seriously.

First-time buyers now need £60,600 for first home

Hopes of finally getting on the mortgage ladder were dashed for millions of first-time buyers when the Bank of England (BoE) voted on 20 June to keep the base rate at 5.25%. This is the seventh consecutive freeze on the base rate, despite inflation dropping to the government's target of 2%; and it adds yet more concern to those needing to remortgage or upsize their home and first-time buyers trying to purchase their first property.

Property website, Zoopla recently conducted a study, which found that the average first-time buyer now needs to earn £60,600 a year (nearly double the average UK household income of £33,300) to be able to get their foot on the property ladder. This is based on a typical first-time home costing £250,000 and buyers putting down a 20% deposit. However, this is £2,400 more than was needed a year ago and is thought to be due to a decline in the loan-to-income (LTI) ratio and higher asking prices in the market. It is also £14,900 extra income than was needed 5 years ago, which means a massive jump for first-time buyers to get a foot in the door.

When it comes to existing home-owners looking to upsize their property, Zoopla found that they would need an income of £72,600 to be able to purchase an average priced home at £335,000, which is £3,400 more than a year ago. Of course, it should be noted that these income requirements vary depending on where you live and are lower for most of Wales, northern England, and Scotland. Higher incomes are needed for first-time buyers in southern England, especially as expected in London, which is why first-time buyers are looking to buy cheaper than average homes to improve their affordability options.

Breaking these figures down into monthly mortgage payments; this equates to the average first-time buyer having to fork out an extra 61% since the last election in 2019, with payments increasing from £667 to £1,075 according to property listing company, Rightmove. According to Rightmove, these figures are based on a five-year fixed mortgage taken out over 25 years at 80% loan to value (LTV), which is the average LTV mortgage held by a first-time buyer. The 61% increase is due to mortgage rates rising over this period and remaining elevated.

In 2022, figures from Zoopla show that first-time buyer deposits increased by more than 50% from 10 years prior to this (2012), with first-time buyers putting down an average of £45,569 in 2022, compared with £23,625 in 2012. This shows just how much property prices have risen along with first-time buyers now also needing a higher deposit.

The rate at which purchase costs have increased over the last 10 years shows that the amount a typical first-time buyer needs to pay each month on their mortgage has outstripped the pace of their income growth. To get around this, some first-time buyers are extending their mortgage terms to 30 or 35 years to lower their monthly payments, or alternatively are buying a cheaper property to lower their borrowing cost.

With a new government in place, there is hope that if mortgage rates could reduce, with a base rate drop from the Bank of England (BoE), then this will help first-time buyers in the short term and will reduce the deposits required, giving them a better chance of getting their foot on the property ladder.

If you need any advice on mortgage planning for you or a family member; please get in touch and we can refer you to our trusted sources depending on your individual needs.

Investment Insights

July 2024

Q2 2024 Overview

The second quarter saw continued positive performance for global equities. Investors are clearly feeling more optimistic that US interest rates will start to come down later in 2024 as inflation approaches the 2.0% target. While continued risks of persistent inflation, geopolitical risks, China slowdown, higher for longer rates, and high valuations exist, the market continues to hit record highs.

During the second quarter it was emerging markets ("EM") that performed relatively well. The EM index increased 5.3% while developed markets ("DM") increased 2.8%. DM market performance all came from the US, while DM excluding the US delivered a negative 0.1% for the quarter.

The US delivered a return of 4.0% in the second quarter, bringing the YTD performance to 15.8%. The performance has primarily come from growth stocks, while value continues to lag. In the second quarter the S&P 500 Growth index increased 9.5% while the S&P 500 Value index declined 2.2%

Gold continues to perform strongly, with the metal increasing 5.0% in the second quarter, bringing the YTD return to 12.0%. Gold miners which are typically leveraged to the gold price had a strong quarter with a return of 9.9%.

Table 1: Market performance

Total Return (GBP) (%)	2024 Q2	YTD
Global Equity[1]	**2.9**	**12.5**
Developed Markets[2]	2.8	13.0
Emerging Markets[3]	5.3	8.6
Developing Markets ex. US	(0.01)	6.3
United States[4]	4.0	15.8
United Kingdom	3.7	7.4
Japan	(3.7)	5.5
S&P 500	**4.2**	**15.3**
S&P 500 Growth	9.5	24.6
S&P 500 Value	(2.2)	6.7
S&P 500 Equal Weighted	(2.7)	6.0
S&P 500 (US Small Cap)	(3.2)	0.1
S&P 500 (US Mid Cap)	(3.5)	7.1
Commodities[5]	**1.4**	**3.2**
Gold	4.4	13.4
Gold Miners	9.9	14.1

Source: Factset Stonewood Wealth

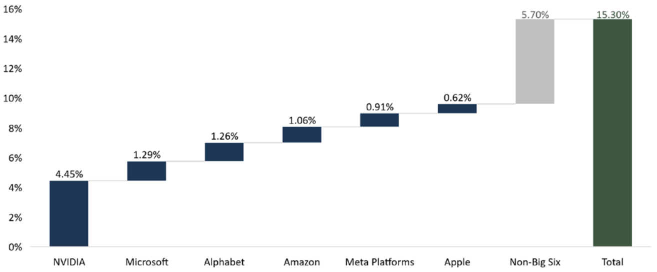
[1] MSCI All Country World Index
[2] MSCI World Index
[3] MSCI Emerging Markets Index
[4] MSCI USA
[5] Bloomberg Commodity Index

Market Concentration

As most equity indices tend to be 'market-cap weighted', this results in a handful of stocks making up a significant portion of an index's returns. However, the current concentration and 'narrowness' of the market is extreme by historical standards.

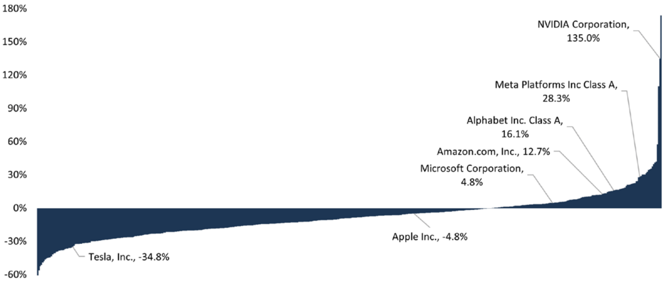
The six largest companies in the S&P 500 now make-up 31.0% of the index. As would be expected, a significant portion and driver of returns lies with a few mega-cap names. YTD the S&P 500 delivered a total return of 15.3%. Of this return, the six largest companies contributed 9.6% of this while the remaining companies contributed 5.7%. The top six companies share prices increased 45.7% while the remaining 497 companies returned an average of 4.8%.

Chart 1: Total return contribution of the S&P 500 constituents YTD



Source: Factset and Stonewood Wealth

Chart 2: Distribution of S&P 500 stocks YTD performance relative to the S&P 500 index

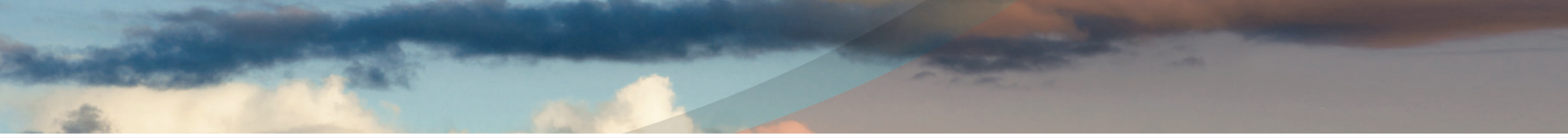


Source: Factset and Stonewood Wealth

Chart 2 shows the distribution of YTD returns of the individual constituents of the S&P 500 Index, relative to the returns of the Index. As can be seen, all the large six companies outperformed the index except for Apple. For example, Nvidia outperformed the S&P 500 by 135.0%, while Microsoft outperformed by 4.8%.

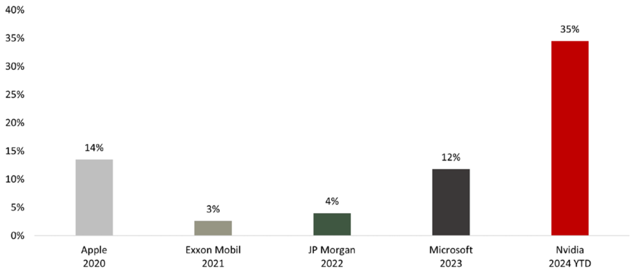
What can immediately be seen in chart 2 is the extreme tail of a relatively small number of companies that generated significant returns while a large portion of the constituents underperformed the Index. In total, 364 companies underperformed the index, while 139 outperformed.

To further demonstrate the narrowness of the US market and an idea of how the average stock performed, the S&P 500 Equal Weighted index can be a useful index. The index limits the influence of the largest companies. YTD the equal weighted index returned 6.0% while the market cap weighted index increased 16.3%, an underperformance of 10.2%.



Investment Insights cont....

Chart 3: Percentage of S&P 500 return attributed to top contributor



Source: Bloomberg

Chart 3 above shows the percentage of the S&P 500 return attributable to the largest contributor. As can be seen, around 35.0% of the returns YTD have been driven by Nvidia. This is well above the attributions seen over the past four years.

Earnings

US earnings for the first quarter came in ahead of analyst consensus. This better-than-expected earnings growth was primarily seen by a select group of large technology-related companies. This is a continuation of this trend seen over the past few quarters. Markets have rewarded these companies with significant price performance. For the first quarter of 2024, the S&P 500 grew earnings by 6.2%. The top six largest companies contributed earnings growth of 7.9% while the remaining 497 companies saw negative growth of 1.7%.

The large technology companies have been in a beneficial position because they have substantial amounts of cash on their balance sheets which is collecting higher interest. Many of them also have lower debt burdens than the other 493 stocks or long-dated low coupon debt that is not near maturity and therefore their net interest expense has not increased in line with the higher rate environment. This has turned the higher rate environment into a potential tail wind to large tech, while it has been a headwind for the balance whose access to debt markets is possibly less favourable.

The upcoming earnings season is vital for the market, particularly the US. The largest companies have continued to deliver strong earnings growth and the market has rewarded them for this. However, we believe that expectations have become too high, and the market has priced certain stocks to perfection and is ignoring the possibility of a slowdown or slight earnings weakness.

Analysts are expecting S&P 500 earnings to grow around 8.5% for the second quarter. 4.8% of this is expected from the big six while the remaining companies are expected to contribute around 3.7%

Chart 4: Market Value and Earnings Growth Expectations Contribution for the S&P 500 in 2024 Q2

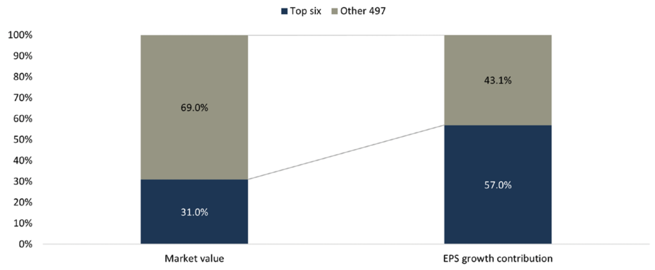


Chart 4 shows the weighting of the top six stocks and the expected earnings contribution for the second quarter. The top six stocks make-up 31.0% of the index and are expected to generate 57.0% of the expected earnings growth for the quarter.

Conclusion

The narrowness of market performance for much of 2023 and 2024 has made for a difficult period for equity managers who are not overweight US large cap growth or momentum stocks. Even active US large cap managers would have struggled to outperform their benchmarks. This could be due to UCITS restrictions or just some prudent risk management through position size considerations.

This has meant that our manager selection has detracted from our portfolio performance in the last 6-months. The aim of the manager selection is to add alpha through the cycle and investment term. The fact that almost all strategies regardless of region underperformed their cap-weighted benchmarks gives us confidence that this quarter was somewhat of an outlier.

Excluding the seven largest names in the US, equities outside of the US and other US stocks have not seen the same valuation expansion. This puts the "rest" in a more interesting position in terms of forward-looking prospects.

Markets tend to narrow towards the end of bull cycles, and there are some similarities with the current environment and the late 1990s. Back in the pre-Dot Com crash, markets favoured larger market caps and marketplace concentration increased. While the current market environment warrants caution from investors, there are still areas of potential opportunity.

Our current positioning in our portfolios is to favour managers who are allocating to names outside of the US. This means we continue to be overweight developed markets outside of the US and also maintain a slight overweight to emerging markets.

Within our US equity allocation we currently favour managers who have a more value conscious tilt to their stock selection and those that have identified more attractive opportunities outside of the mega-cap names that have driven the recent index multiple expansion.

Birchwood Investment Management Limited does not take any responsibility for the consequences of any action taken or refrained from as a result of this newsletter. The Financial Conduct Authority does not regulate advice on tax or trust planning.

www.birchwoodinvestment.com

Birchwood Investment Management Ltd, 8 Prospect Place • Welwyn • Hertfordshire AL6 9EN • UK
Tel: 01438 840 888 (Welwyn) • **Fax:** 01438 840 097 • **Email:** info@birchwoodinvestment.com
Birchwood Investment Management Limited is authorised and regulated by the Financial Conduct Authority.

Birchwood Investment Management Ltd is part of the Stonewood Wealth and Investment Group.