Birchwood Investment Management Ltd

Newsletter

April 2024

It's plain sailing...

Navigating an ever changing pensions market

In the Spring budget, the topic of pensions was yet again under intense scrutiny to see what move the Chancellor would make next regarding both state and private pensions. The future of the triple lock pension is still unclear, and as we end the month of April, an additional 650,000 pensioners could now be liable to pay income tax due to the personal allowance threshold still being frozen. In the Autumn Statement, plans were also outlined to launch a 'pension pot for life' to help people keep a better track of their private pensions, but this is still somewhat a work in progress. With all this uncertainty, a rapidly ageing population and over £50 billion sitting in lost or abandoned pension accounts, preparing for our financial future can't start early enough.

The UK pensions field is an ever changing landscape; plans are outlined and then dropped or new schemes are introduced to try and win votes in the next General Election. One particular scheme still under question is the Triple Lock pension which the Chancellor had promised would increase in line with inflation and has now risen by 8.5% in April to £221.20 p/week. Whilst this is in line with the annual pay growth that was recorded in the 3 months to July last year, much of this funding is reliant on cuts being made to public sector spending and overall improved economic growth.

It is estimated that 650,000 pensioners could be adversely affected as this increase in their weekly pension means they could find a demand from the HMRC requesting they pay income tax should they tip over the personal allowance threshold - this is still frozen until 2028. However, this mainly affects those who have the added benefit of extra monthly income coming in on top of their state pension, for example renting a second home/holiday home or working in a part-time role and will therefore need to complete a self-assessment form at the end of the tax year.

With regards to private pensions the 'pension pot for life' is one idea that the Chancellor is currently exploring. He made no mention of it in the Spring budget, but according to analysis from the Centre for Economics and Business Research (CEBR), almost 5 million savers (1 in 10) currently have lost pension pots totalling £50 billion caused by changing jobs through the years. On average, workers aged 35 and under have 2.4 pension pots as they tend to move jobs more frequently, and for younger employees this is forecast to be nearer 5 pension pots by the time they reach retirement age.

A survey by PensionBee also found that a quarter of those younger workers think they have lost a pension pot, in comparison to only 8% of workers over 55. Although the over 55's have worked for longer, they will have an average of just 1.7 plans and will hopefully know exactly where they are. When the total number of UK pension accounts is forecast to reach 243 million by 2050, this could mean that literally millions of pounds are languishing unwittingly in lost retirement funds.

The "good old days" when we had a 'job for life' has long since passed (unless potentially for some public sector workers), so the 'pension pot for life' would be a very different proposition to the current work pension scheme, where employers decide their chosen pension scheme provider in which they and their employees contribute. Instead staff themselves will have the opportunity to choose their own pension provider which will mean their pension would move with them as and when they change jobs and move to a different employer.

There are several ways you can keep track of your various work pensions including storing your old paperwork, employer and pension provider names and policy numbers all together in one place. You could simplify the process further and consider consolidating them all into one pension. However - it is always advisable to speak to a Pensions Advisor before you make significant changes or move your existing pensions to ensure you're making the best financial decision for you and your individual circumstances. They can also check if there are any pensions that cannot be moved.

With life expectancy rising here in the UK, with no future guarantees of our state pensions, having an effective private pension system is essential to prepare you and your family for the future. If you need any advice on retirement planning; please get in touch with your financial adviser here at Birchwood Investment Management.

Falling Interest Rates & Inflation - what does it mean?

Interest rates and inflation go hand in hand and following the 41 year inflation high of 11.1% in October 2022, we've been watching intently as it eventually began to recede in the opposite direction. It was expected (hoped) that once inflation rates dropped, we might start to see the Bank of England (BoE) cut interest rates, which in turn would be passed on to mortgage providers to reduce the sky high base rates for millions of homeowners living on the edge - but this has not yet come to fruition. As if this is not enough, we also have the added risk that if interest rates are not cut soon, the UK could potentially enter a period of deflation, resulting in a drop in household incomes. So what does this all mean for our finances?

Although the BoE hit the pause button on further interest rate rises over a year ago, the first cut is yet to be announced. Whilst decreases in energy and food prices initially provide some breathing space, a decline in prices is associated with falling incomes, adding further stress to household budgets. Inflation, which is currently sitting at 3.2%, the lowest rate since September 2021, could drop too low. We effectively need a degree of inflation in the economy, as it makes it easier for relative prices to adjust and have variations, so we can decide what items we want to buy.

The problem with falling prices occurs when we concurrently have high levels of debt. During periods of deflation, it becomes harder to proactively reduce your debts as your incomes are likely to have fallen in par with overall prices. Interest payments and debts then take up a bigger proportion of our income. How this translates to your mortgage is purely down to how your mortgage has been fixed in cash terms. Therefore, if your income drops as prices fall, the overall risk of your mortgage debt becomes higher in relative terms to your income.

So, when are we likely to see the BoE cut interest rates? It is currently predicted by economists that inflation is now likely to fall back below the BoE's 2% target in May, partly due to the 12% drop in the energy price cap that is coming on April 1. This could mean the BoE start cutting interest rates (currently sitting at 5.25%) in August or potentially even as early as June.

However, this is all reliant on policymakers ensuring that inflation is under control and that the upcoming 9.8% hike in the national living wage this month will not cause another spike in inflation. It will put more money back into nearly 3 million people's pockets and could fuel a rise in consumer spending.

Unfortunately, it is extremely hard to forecast what will and won't happen so we need to ensure our finances are reasonably flexible whilst we weather this storm. You can only make decisions based on the here and now and look at the risks associated with sticking with a higher rate mortgage in the hope that new more attractive rates are announced. According to the Office for Budget Responsibility, the average rate on mortgages was 2% at the end of 2021, whereas an average two-year fixed rate is now sitting at 5.78%. It's easy to see why people are confused over whether or not to fix, with some choosing to play a waiting game and temporarily moving onto the variable rate.

When it comes to your savings, it pays to have your emergency savings fund in an easy access account, so you are able to access it in a hurry, but do shop around for the best possible rate. For any money that is not needed immediately, consider putting it into a fixed rate account

Finfluencers & the dangers of Online Money Advice

With new research showing that over half of UK adults are now taking savings tips from 'finfluencers' (Financial Influencers) on social media platforms like TikTok, it appears the trend which used to apply to Generation Z has now become mainstream amid the growing need for people of all ages to try and save money during the cost-of-living crisis. Children start to receive financial education from the age of 7 and with a large number of children using technology in the form of phones and tablets, it's logical that financial advice needs to adapt and be visible on the social platforms where the next generation are hanging out. But just how reliable is the advice found online?

The research conducted by Intuit Credit Karma, showed that Financial influencers on social media sites are the second most popular place for under-25s to get financial advice, and more than a third (36%) mentioned that 'finfluencers' were their main resource for financial advice. 39% of under-25s said their first choice would be to talk to a close family member first, and less than a tenth said they would actually go to a financial services provider.

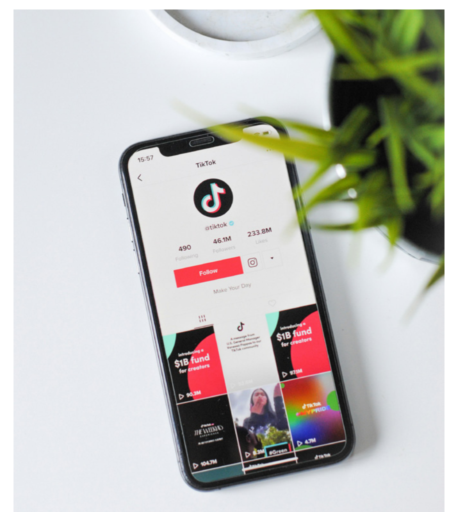
For older age groups, the majority of those who took financial advice from social media, reported that money saving tips from TikTok, where Money influencers have a big following had helped improve their finances. The hashtag #Fintok, short for financial TikTok, has now received almost four and a half billion views and with the younger age groups who favour video sharing tips on how to save more money are especially popular.

Whilst it's encouraging to see young people in taking a keen interest in their finances rather than waiting until they're nearing retirement, there's a high level of misinformation on social media, especially about investing and cryptocurrency. It can be financially damaging, to say the least, to take advice from a non-qualified (and regulated) financial adviser. Always double check any financial advice that you've seen online or you could risk losing money.

It has also been found that some 'finfluencers' are promoting inappropriate financial products without understanding the risks involved or how they actually work, leading to concerns over scams or blatantly incorrect investment advice. To try and deal with this issue, the Financial Conduct Authority (FCA) is updating their guidance for firms and influencers marketing financial products online, so they can stay on the right side of the rules and anyone found touting products illegally will have action taken against them.

Whilst there can be positive outcomes from using social media and building awareness of how to budget and keep on top of your finances etc, there are unfortunately many influencers out there who could be focusing more on their own personal financial gain as opposed to ensuring their advice is compliant – and correct. It's vital to check that anyone you're taking financial advice from is registered with the FCA, especially if it involves larger sums of money. This is particularly important with younger family members. There are many certified financial planners and certified public accountants on TikTok, which is the fastest growing social media platform, there are equally as many content creators who could be making a lot of cash from advice that is not regulated.

Social media is here to stay and as these statistics show financial advice on these platforms is now becoming popular with all age groups. Always stay wary, check facts first, and keep your money protected.



Investment Insights

April 2024

Q1 2024 Overview

Table 1: Asset Class Performance Table (performance data for 31st March 2024).

Asset Class	1 month	3 month	1 Year	3 Years
UK Equity	4.75%	3.56%	8.39%	25.99%
Global Equity	3.28%	9.19%	20.60%	33.63%
DM Equity	3.35%	9.88%	22.45%	39.90%
EM Equity	2.62%	3.30%	5.86%	-6.51%
Global Property	2.95%	-0.01%	6.41%	14.78%
Global Bonds	0.69%	-1.19%	-1.64%	-5.56%
UK Gilts	1.81%	-1.83%	-0.49%	-21.97%
EM Bonds	1.17%	0.86%	5.77%	4.47%
Oil	7.97%	18.77%	19.19%	107.71%
Gold	8.48%	8.35%	9.67%	39.38%
Commodities	3.45%	3.13%	-2.67%	41.85%
GBP/USD	-1.93%	-0.93%	1.58%	-7.99%
IA Mixed Investment 40-85% Shares	2.77%	4.14%	10.11%	10.67%
IA Mixed Investment 20-60% Shares	2.38%	2.51%	7.80%	4.25%
IA Mixed Investment 0-35% Shares	1.96%	1.45%	5.85%	-0.12%

Source: Morningstar, 31st March 2024, Returns in GBP

The first quarter of 2024 ended with impressive performance in the month of March from most asset classes.

The quarter sees a continuation of the trends that we witnessed in the final quarter of 2023, where risk assets rebounded from the October 2023 lows on the back of expectations of improved growth prospects globally combined with inflation coming back toward Central Banks targets.
In equity markets we saw the continuation of American exceptionalism, with US stocks outperforming global equities. However, mirroring the trend observed in 2023, these gains were primarily driven by PE multiple expansion rather than earnings growth.

In contrast to this we have seen examples of developed market equity outside of the US, namely European and UK equity markets, experience better earnings growth but more modest increases in equity prices. This has meant that the overall valuations of these regions have derated. This is in stark contrast to the US which has continued to see valuations expand despite the lack of earnings growth.

Much of this can be attributed to weaker economic growth in areas outside of the US. If inflation continues to fall outside of the US, markets could see the ECB and BOE follow some of their emerging market counterparts in lowering rates ahead of the US which would be seen as supportive of growth in those regions. This could be the catalyst markets require to rerate equity markets in those regions.

Global fixed income investors faced a more challenging period as inflation remained stubborn, economic activity stayed resilient, and the Fed tempered the market's expectation of rate cuts, leading to negative bond returns. At the end of the first quarter, the expected number of rate cuts in the US for 2024 decreased from six or seven to just three. These expectations have subsequently fallen further. Within credit, high yield outperformed investment grade thanks to its lower interest rate sensitivity and easier financial conditions leading to lower credit spreads.

Global commodity prices and physical gold enjoyed strong performance during the quarter. This again highlights the benefit of holding a range of asset classes across the portfolios we manage.

While the global economy continues to remain resilient, and the prospect of fewer than expected rate cuts in the second half of this year could continue to support markets, some caution is warranted. Select equity markets appear increasingly priced for perfection. Add to this the continued geopolitical, economic risks, persistent inflation, and the risk of higher oil prices.

Despite our more defensive positioning across the model portfolio range going into the start of 2024 we have managed to outperform the benchmarks across almost all the portfolios. Again, this is supportive of our view that diversification across asset classes and regions as well as manager selection within the various asset class exposures are an advantage to client portfolios.

We believe the backdrop going into the second quarter continues to warrant some caution as the last six months has seen strong performance across most asset classes and valuation expansion.

Thank you for your continued support.

James Twidale - On behalf of the Investment Committee

Maximise your financial gains in the new tax year

April 6th marked the start of the 2024/25 Tax Year and a brand new opportunity to maximise your financial gains by planning ahead, rather than leaving it until the last minute at the other end of the tax year. With the Spring budget still fresh in our minds, it brought tax cuts, investment policies and benefits, some expected and some unexpected. Here's a reminder of the new financial policies and benefits the Chancellor introduced, to help you decide where you need to start taking action and how to benefit from extra monies you are saving on increased thresholds.

Cut to National Insurance Contributions

There were unfortunately no changes to income tax thresholds or inheritance tax (IHT) in the Spring budget, but National Insurance (NI) contributions have been cut from 10% to 8% from April 6th. If you are self-employed, your Class 4 contributions are also cut from 8% to 6%. These cuts will benefit approximately 27 million people and will save the average worker around £450 per year.

Child Benefit Threshold

The current system of assessing Child Benefit was finally changed with the threshold now being moved from £50,000 to £60,000 from April 2024, and the top band of when you can no longer claim Child Benefit being increased to £80,000. This should benefit around half a million families and save an average of £1,300 from next year. A consultation was also announced by the Chancellor, to look at changing the child benefit system so that it is based on a household's earnings, rather than an individual's earnings.

Property-related taxes

In a bid to treat short-term and long-term lets equally, tax breaks for second homeowners who let out property short-term to holidaymakers will be abolished from April 2025 meaning they will all pay the same. Capital Gains tax on residential property has reduced from 28% to 24% starting on April 6, 2024, which will make it cheaper for landlords to then sell their properties. It was also proposed to abolish multiple dwellings stamp duty relief from June 2024. This will not only impact landlords, but anyone who is looking to buy a home with an annexe (so, a second building away from the main house) which would normally be used to care for ageing parents.

Non-Domicile Tax Status Change

From April 2025, the Government have proposed axing the non-domicile tax status which currently allows UK residents whose permanent home is in a different country to only pay UK tax on any income they have made here. A fairer residency-based system will replace it and will effectively mean that if you are still living in the UK after 4 tax free years, tax will then need to be paid at the same rate as UK citizens which aims to raise £2.7bn.

VAT for small businesses

In order to support SME's (small to medium sized businesses), the VAT registration threshold was increased from £85,000 to £90,000 from April 1, 2024, which should benefit more than 28,000 businesses.

Savings/ISAs

A new 'British ISA' (individual savings account) is to be launched in order to boost investment in the UK, and Britons will be able to invest an additional £5,000 a year tax free in UK assets. This is on top of the standard £20,000 annual ISA allowance. The government is still consulting on this, but it pays to get your finances in order so you can take advantage of it when it launches. There are also plans to launch a new British Saving bond, with a fixed rate for three years.

The start of a new tax year is the perfect opportunity to look at your personal allowances and investments, to see if you are making the most of every penny and with the majority of these new benefits and tax cuts now in place from April 2024, it's the perfect time to reassess your finances and see where you can maximise the new savings.

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