CHAMPAIN
FINANCIAL SERVICES

Bawtry
Selsfield Road, Ardingly
Haywards Heath
West Sussex RH17 6TJ

T: 01444 229 520
F: 01444 229 521
info@champain.co.uk
www.champain.co.uk

Technical Update No. 40 9th September 2019

Investor / Saver / Retired

Investors shun UK equities

A plummeting pound, volatile bond and stock markets, a superpower trade war, a looming global recession, and political turmoil over Brexit - it's only human to be rattled in the face of all that. When markets turn rough, conventional advice to savers with cash invested for the long term is always to ensure you are well diversified, and avoid knee-jerk reactions. But even if investing is a long game, and it's unwise to cash out because markets have temporarily gone wild, there are some steps you might consider taking. Reviewing where you are invested and whether to do some rebalancing isn't an over-reaction. Should you reduce your UK equity exposure and look to the US or Japan, or switch to lower-risk assets like bonds, or simply cash? And what about gold, which generally does well in times of global slowdown and uncertainty? Here's a quick summary:

- Yields on bonds are very low and are sensitive to changes in economic outlook - so if the global outlook picks up bond prices may fall. Holding UK government bonds might not protect investors if a no-deal Brexit leads to a loss of confidence in the British economy and leadership.
- Cutting exposure to UK assets is one option. Emerging markets may have better long-term growth potential and their governments often have less debt than their Western equivalents. Emerging markets are considered to be a higher risk strategy.
- Stick with the UK: Pound is weak so buying abroad is expensive.
- While gold is perceived as a safe haven in times of uncertainty, this 'doesn't mean you can't lose money. Past performance is not a guarantee to future performance. The value of investments may go down and you may not get back the amount invested.

Investor / Saver / Retired / Property Owner

Savings rates tumble

Since the end of August savings rates have tumbled unceremoniously, making life harder for savers looking for a good deal. So, what is going on? There are several plausible explanations for the raft of rate cuts from saving providers. And much of it joins together to paint a wider negative picture. Savings providers could be correcting their rates from wrongly-anticipated Bank of England rate rises. The global economy until quite recently looked set to keep growing and policymakers to tighten monetary policy. But in the past few months, economic indicators in the UK, Germany and other developed countries have started flashing for a recession. Savings providers could have wrongly anticipated a rate rise, and now reversed course to anticipate rate cuts. This is more pronounced thanks to fears over a no-deal Brexit that could lead to a bigger rate cut from the Bank of England too. Another related reason, and perhaps more concrete, is that investors are pulling their cash out of the stock market thanks to recession jitters. Choppy economic data, threats of a trade war between the US and China, and other events on the horizon such as Brexit, are causing ordinary investors to flee equities and pile into old-fashioned cash savings. This in turn is overwhelming demand for savings providers' products and forcing them to disincentivise more new deposits. Whether or not the rates continue to plummet remains to be seen.

Investor / Saver

Restrictions on high risk investments?

Should investors who buy high-risk bonds be compensated when things go wrong? The obvious answer is no, with the clue in the word "risk". But what if a bond is marketed to small investors with a "quarterly interest rate", and is approved for inclusion in an Isa, and is promoted by a financial advice firm authorised and regulated by the Financial Conduct Authority. Would you expect the bond to lose not just the interest, but all the money you deposited? This is the type of scenario in which many investors in so-called "mini-bonds" have found themselves. About 11,000 investors in London Capital & Finance's mini-bonds could lose a total of up to £236m, in one of the worst financial scandals for a decade. Mini-bonds are just an IOU to a company, are rarely secured on anything, and are usually completely illiquid and cannot be traded. They are simply too risky for the average small investor. Even if the interest rate on the bond is 8%, it's hardly enough to compensate for the evidently high risk of losing your shirt. Now Charles Randall, chairman of the Financial Conduct Authority (FCA), has conceded that it was "clear that there's too much confusion" about what investments were covered by the regulator and which were not.

All

Brexit recession fears ease

Fears of a UK recession eased on Monday as new data showed better than expected economic growth in July. The UK economy grew by 0.3% between June and July, according to the Office of National Statistics (ONS). Economists had forecast month-on-month growth of 0.1%, up from 0% in June. Barring a serious relapse in August and September, this suggests that the UK should avoid falling into a technical recession in the third quarter. A recession is defined as two consecutive quarters of recession. The UK economy shrank by 0.2% in the second quarter of the year and July marks the start of the third quarter. The uptick in growth in July was driven entirely by the service sector, which covers everything from hospitality to banking and is the biggest part of the UK economy. While the figures are from stellar, after a contraction in the second quarter the chances that we see a negative GDP print in the third have now dropped significantly, meaning that a technical recession will likely be avoided.

Investor / Saver / Retired

Bond rally bad news for annuitants

Annuity rates have tanked by 14% so far this year, with a £100,000 pension pot now buying a 65-year-old £4,654, £759 less than at the start of the year, according to research by Hargreaves Lansdown. Rate changes have been even more pronounced for younger retirees. A 60-year-old with a £100,000 pension who bought an annuity at the start of the year would have received an income of £4,776 but the same person retiring today would get just £4,051, a 15% decrease. Over the course of a 20-year retirement, that's a difference of £14,500. Fears of a no-deal Brexit and a slowdown in the global economy have increased the cost of buying the secure investments that insurers use to underpin annuity pay-outs. It's currently making keeping your pension invested look more attractive than it probably should do.

All

Half of adults still rely on parents

Almost half of adults have said that they still rely on their parents for financial support, according to a new study. Over the last year, adults have borrowed a total of £708 from their parents to assist in the costs of university fees, bills and home improvements, with some admitting to using the cash to fund coffee pods, contact lenses, mobile phone bills and dog food. Out of the 2000 adults polled, three in five said that they would struggle to cope without financial support from their parents. The research was commissioned by Virgin Media to mark the launch of its new Family Plan offering. The research shows that 'The Bank of Mum and Dad' is still very much in business, with Brits depending on their parents even when they're grown-up.

All

What would an election mean for your finances?

Most people are bored with Brexit but must watch what's happening because they are concerned about their finances. The big question as the political infighting unwinds at Westminster, almost changing by the hour, is what does the possibility of a General Election mean? That you should diversify your assets most commentators agree. Gold is one area that a fund manager might look at. You should stay invested because if Brexit is resolved, assets can rise. What about Sterling? Now it's £1.19 or £1.20 against the US dollar. Some experts believe it's advisable to stick with Sterling, but it's an opinion and lots of things could happen and your adviser may take a different view. Some think we are close to the bottom and the bad news is already priced in. If we are close to a low, assuming we get some certainty, then we are likely to see a rise in Sterling. It won't be massive because we have some pain to go through before we see a recovery, so most don't think the price is going to shoot back up. If the politicians make the right decisions, Sterling will go back up, but I suspect £1.30 or £1.35 to the dollar in the future is probably as high as the price will go.

Investor / Saver / Retired / Business Owner / Property Owner

Study calls for overhaul of Capital Gains Tax

The Institute for Public Policy Research has called for wealth to be taxed at the same rate as income tax in a radical overhaul of the tax system. Describing the UK as one of the most 'unequal countries in the developed world,' the study by Institute for Public Policy Research (IPPR) warns income inequality could be set to worsen as capital and property ownership become more important sources of income generation. The IPPR believes this divide could be narrowed if wealth is taxed at the same rate as income, which could boost the government's coffers by £90 billion over the next five years in the process. The study suggests that it is profoundly unjust that those who work for their incomes are taxed more highly than those whose income is derived from wealth. This situation is all the worse when we consider that the wealthiest are less likely to generate their income from labour than the rest of us. Among the richest 1%, over one-quarter of total income is generated from dividends and partnership income alone. To address the balance, the IPPR has called for capital gains tax (CGT) on the sales of shares, bonds, property and other investments to be paid at same rate as income tax.

All

House price fears as Brexit looms

UK house prices could crash by as much as a fifth if Boris Johnson pursues a no-deal Brexit, and the biggest falls would be in London and Northern Ireland, a leading accountancy firm has said. Reflecting the potentially vulnerable state of the property market as Brexit looms, KPMG said house prices would fall by between 5.4% and 7.5% across different regions next year if a new agreement with Brussels was not in place by 31 October. The analysis of average house prices across the country showed no deal could trigger a nationwide decline of about 6% in 2020 and that and a drop of between 10 and 20% was "not out of the question" if the market reacted more strongly than expected. House price growth across Britain has slumped since the EU referendum three years ago, and prices fell across the south of England in August for the first time since the last recession in 2009. Assessing the impact of a no-deal Brexit on local economies, KPMG said house prices in Northern Ireland and London could fall by as much as 7.5% and 7% respectively, because of their greater connectivity with EU trade. Despite the value of the average home in the capital potentially falling to £422,000 next year as a result of no-deal Brexit – down from £453,000 if an agreement is reached – KPMG said it would still have the highest cash prices in the country. Should Johnson strike an agreement to leave the EU with a deal on 31 October, KPMG suggested house prices would continue to rise next year, growing by about 1.3%.

Property Owner

Buy-to-let landlords under attack from McDonnell

John McDonnell has announced a scheme that would allow private tenants the right to buy the home that they live in a discount price. This is on top of a report commissioned by the party earlier this year that also recommended caps on the amounts buy-to-let landlords could charge tenants. Alongside the cap to the rent there would also be curbs on their ability to evict rents "on spurious grounds". The latest suggestion from the Shadow Chancellor is to apply Margaret Thatcher's iconic right for council tenants to buy their homes to those who rent properties from millions of private buy-to-let landlords. He hopes it would reverse the fall in affordable housing seen after Mrs Thatcher's decision to allow council housing tenants to buy their homes. Speaking to the Financial Times, Mr McDonnell said: "We've got a large number of landlords who are not maintaining these properties and are causing overcrowding and problems." Labour could give tenants who rent private homes the right to buy them at a cut-price rate, in the Shadow Chancellor's plans. But experts believe it would decimate the rental market in the UK, creating a shortage of properties available to rent.

For information about our services please contact Champain or view online.

END.