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Investor / Saver / Retired

Retail investors at sea

The coronavirus is spreading from east to west and the epicentre is now in Europe. Its economic and financial repercussions, however, are being felt widely as asset markets price in a global recession. Risky assets are facing severe losses since their peak in mid-Feb. Unlike in previous crises, traditional safe havens such as government bonds, the USD and the JPY have offered little shelter to investors. Part of the reason is that the COVID-19 virus is an exogenous shock. It is not rooted in economic or financial imbalances. As such, the way to mitigate it is not just by using the traditional economic policy tools. Rather, policymakers need to find health-related solutions to tackle the disease and policies to mitigate the huge economic and financial spill-overs. Controlling the spread of COVID-19 is one of the key elements needed to break the market rout. News of a vaccine or a cure would be a game changer. Otherwise, we need to monitor closely the evolution of the virus and the measures taken to contain it. It is highly likely that the global economy will be in recession for most of 2020. Experts' base case is for a gradually recovery towards the end of the year in what they see as a 'U-shaped' bounce. Initial US macroeconomic data capturing the effects points towards significant economic disruption. For example, the Empire manufacturing index for March fell to its lowest level on record. In China, surveys of economic activity showed a collapse in February. Hard data has been dismal: e.g. retail sales -21% YoY and industrial production -16% YoY. However, energy consumption, passenger traffic, online retailing, business at hotels and restaurants are picking up. This is partly the result of the virus control measures and policies supporting SMEs, vulnerable people and consumption.

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All

Rates dive deep

The Bank of England has slashed the base rate for the second time in just over a week in a further emergency response to the coronavirus pandemic, reducing it from 0.25% to 0.1%. The base rate is the Bank of England's official borrowing rate – i.e., what it charges other banks and lenders when they borrow money – and it influences what borrowers pay and savers earn. The surprise decision was taken at a special meeting of the Bank's Monetary Policy Committee on Thursday 19 March, just days after it was cut from 0.75% to 0.25%. The latest cut takes the base rate to its lowest-ever level. Here are the key need-to-knows for your finances:

- Some mortgages will get even cheaper. Homes with tracker mortgages – whose rates 'track' the base rate – should see their rates drop even further. However, fixes won't change. With variable rate mortgages you should definitely see a cut, usually by the full 0.65% points over the two base rate cuts, but it varies.
- It's yet more bad news for savers. Savings rates have been woeful for years and were already set to drop after last week's base rate cut. Now they're likely to fall further, although if you've a fixed-rate account you're protected for the time being.

Investor

Pension scam risk

Pension savers face a greater risk of being targeted by fraudsters, new research from the All-Party Parliamentary Group on Pension Scams (APPG) has revealed. The government has advised more people to stay at home amid the coronavirus crisis, which could increase their chances of being contacted via phone or online. Investment markets plunging over recent weeks may also make people more susceptible to pension scams as they attempt to recover losses from their retirement savings. The figures show that up to £10 billion may have been stolen by fraudsters in 2018, with the average pension scam victim losing £82,000, the APPG found. Current legislative initiatives are falling short of protecting retired workers, the APPG has found. For example, the government's ban on cold calling still leaves room for scammers to target people if they claim to represent a major pension provider. If the person happens to have a pension with the company stated, they may not realise that the call is fraudulent. The APPG on Pension Scams is calling for the government to do more to protect retired workers. This includes improving early warning systems and communication between advisers, providers and regulators to prevent scams before they happen. Simplifying official channels to help people identify and report fraud could also help reduce the risk of pension scams occurring.

All

Gold sell off

The way stocks have been selling off lately, one may have thought that a safe place to park your cash was in precious metals, such as gold and silver. These have always been considered great "flight to safety" instruments, as they are viewed as a store of value. When there is a financial crisis, there is always the possibility that some assets "may not be around" when it's all said and done. However, throughout history, precious metals have always provided a home for cash when other assets were failing. However, during the current sell off in risk assets, cash has not necessarily rotated out of stocks and into precious metals. When the crisis started (before we know it was a crisis), money was flowing the usual flight to safety pattern out of stocks and into gold. However, as the coronavirus spread throughout the world and stocks continued to move lower, precious metals had to be sold so that cash could be raised. The cash was needed for 2 reasons:

1) to meet margin requirements,

2) to build a cash reserve in case of "worst case scenario" (which is also one of the reasons stocks continued to sell off).

It is important to be aware that just because stock markets around the world are being sold off, that doesn't always mean there will be a rotation into precious metals. Sometimes, cash is the best position to be in.

All

Stock markets: what's next?

Too many, if not most, investors, stocks' brutal coronavirus-spurred selloff has defied fundamental analysis. After all, what good are traditional valuation metrics, such as price-to-earnings and price-to-sales ratios, when revenue and earnings estimates are thrown out the window as business activity comes to a halt? If those who focus on fundamentals to determine an asset's fair value are rightly befuddled, technical analysts, who aim to gauge the direction of prices by focusing on historical price trends, buying and selling volume, and other statistical indicators, think they might have an edge. Technicians believe that history tends to repeat, and that studying price charts, particularly in relation to past trends, can help identify turning points in the market, optimal entry and exit levels, and changes in leadership. In this environment, you can't explain the magnitude of the moves you're seeing via fundamental analysis, or even by looking at things from a macro perspective. But studying charts and prices can give you some guidance as to how oversold markets are, and whether further breakdowns are at hand. At times like these, price is news. It is often the only guide investors have during a panic.

Property Owner

Tax relief slashed for UK entrepreneurs

It has been criticised as "Britain's worst tax break" and now it has been dramatically scaled back.

Entrepreneurs' Relief reduces the amount of capital gains tax founders pay when selling shares in their company, taking the tax rate down to 10% — compared to the normal 20% — up to a value of £10m over an individual's lifetime. UK Chancellor Rishi Sunak held back from abolishing the measure completely, but cut back the amount of relief that can be claimed to just £1m. That's the level of relief that was available when it was originally rolled out in 2008. The original idea of the tax break was to encourage entrepreneurship, but organisations like the Institute of Fiscal Studies (IFS) have claimed it has had little impact. In 2017-18 the IFS calculated that the tax break — which cost the UK £2.3bn — mainly benefited a small group of wealthy people. Some three-quarters of the relief went to just 5,000 individuals, who made average tax savings of £350,000 each. A similar study by think-tank the Resolution Foundation found that in 2015-16, some 82% of beneficiaries were men with a typical age of 57. There have been repeated calls to scrap the tax break and allocate the money to public services. Apart from being a pretty exclusive benefit, there is another argument that it doesn't really work: no entrepreneur sets up a business — taking crazy risks and working insane hours — because of the distant promise of a tax break at the end of the company's lifecycle. Admittedly, there is little real research around this, much of this commentary is based on "gut feel" soundings from founders. Start-up organisations like Entrepreneurs Network and The Enterprise Trust argue that it would be better to help start-ups and small businesses at the beginning of their life rather than at the end. Some one in nine small businesses in the UK are discouraged from seeking external finance, making it harder for them to scale up, they found in a recent study. A more effective way of boosting entrepreneurship, might, therefore to make it easier to get early-stage funding, for example by simplifying the process of getting Enterprise Investment Scheme (EIS) tax relief.

Investor

Income concerns as dividends face pressure

Investors are braced for savage cuts in dividends across the FTSE 350 as companies hoard cash to see them through the coronavirus crisis. A wave of dividend suspensions and cancellation of buybacks last week at companies spanning William Hill and Marks and Spencer has heaped further pain on shareholders already suffering losses in their portfolios from the market sell-off. The pandemic appears set to end the decade-long run of bumper pay-outs for income-hungry investors. Since the end of the financial crisis, FTSE 100 dividend payments have almost doubled from £46bn in 2009 to about £90bn in dividends declared so far for 2019, according to stockbrokers AJ Bell. Special dividends and buybacks have been paid out on top. Analysts had expected a further 2% increase in dividend payments to £91.5bn, but experts say that this is "starting to look optimistic. More than a dozen companies have already cut or suspended pay-outs in the UK. Many are in consumer-facing industries, such as pub groups Marston's and Wetherspoons, while the cancellation of sporting events forced William Hill and Playtech to take action. Investors are now worried that dividend cover from earnings has become overly optimistic given an unprecedented drop in consumer demand across industries, and the knock-on effect on areas such as manufacturing and supply chains. With many governments pursuing a 'close everything down' strategy, the deterioration in corporate cash flows is growing by the day. A sustained downturn in economic activity could weigh on commodity prices, and in turn on pay-outs from groups such as Glencore, while BP and Shell are in focus, given the sharp fall in oil prices. As well as cutting dividends, companies could also find themselves unable to pay a final dividend if they are forced to delay or suspend their annual meetings.

Investor / Saver

Now is the time to hold fast

Panic is in the air as everything in the stock market is selling off indiscriminately. All selling off more than 20% in less than a month -most of it coming in the past two weeks. If you are counting on capital gains for income, we hope you don't need to sell this month. Will waiting until next month help? Maybe. The bear market is being fuelled by fear and uncertainty regarding the coronavirus. As long as headlines continue to strike fear into investors, we will see more price volatility. The end of the world has been greatly exaggerated. We are still collecting an income stream substantially larger than the market average. We do not know how much further the market might drop. As experts have suggested before, most suggest that investors be patient.

There are deals literally everywhere we look. So it's best to look at where you want to be allocated after the bear market recovers.

Past performance is not a guarantee to future performance. You may get back less than invested.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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