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All

Billionaires do well during the pandemic

Billionaire wealth soared to a record $10.2tn at the end of July after asset values bounced back following a coronavirus-induced dip, according to a report from Swiss bank UBS and accountancy firm PwC. The plunge in the equity markets in February and March, triggered by the realisation that the pandemic was going to be a global disaster, caused combined billionaire wealth to fall 6.6% to $8tn. The number of individual billionaires fell by 43 to 2,058, the report said. But from the end of March equity markets began to bounce back, driven by huge fiscal stimulus and quantitative easing from global governments. By the end of July, the surge in asset prices had pushed global billionaire wealth back above its 2019 level. Total billionaire wealth globally climbed by a quarter (27.5%), reaching $10.2tn up from $8tn at the start of April. This set a new record high, surpassing the previous peak of $8.9tn reached at the end of 2017. The number of billionaires reached 2,189 up from 2,158 in 2017. Commentators believe Billionaires did well during the Covid crisis and they not only rode a storm but also recovered pretty dramatically because of their discipline and the way they were managing their money. The report shows that the billionaire cohort is storming ahead. What we have seen during Covid is those who are disciplined and captured asset allocation intact were riding the storm and riding the upside. Billionaires in mainland China — ground zero for the coronavirus pandemic — weathered the storm best, growing their wealth by a fifth after coronavirus infections receded in the country in March causing equity markets to rally.

All

Fintech and the Klarna question

The value of “buy-now pay-later” finance group Klarna has soared past $10bn after investors pumped $650m into the Swedish payments company. The company said a new round of investor funding valued the company at $10.6bn (£8.1bn), a blockbuster figure that makes it the fourth-largest private fintech in the world. Commentators believe the worlds of retail and finance had reached an “inflection point”. The shift to online retail is now truly supercharged and there has been a very tangible change in the behaviour of consumers who are now actively seeking services which offer convenience, flexibility and control in how they pay. Klarna is among a wave of fintech firms seducing shoppers on tight budgets. It bills itself as offering a “healthier, simpler and smarter alternative to credit cards” as shoppers can spread the cost of purchases over interest-free instalments. However, some financial experts fear easy-access digital loans could turn into a debt trap. Unlike traditional high-street credit products, Klarna earns fees from the retailers rather than from charging shoppers interest although some fintech companies, including Klarna, also offer interest-bearing products. Klarna now has more than 200,000 retailers on its books, including Asos, JD Sports and H&M in the UK, and 90 million customers worldwide. Retailers like the plans because shoppers using them typically spend more, more often. Investors clearly think the “buy-now pay-later” model has big potential, with the US private equity firm Silver Lake, Singapore’s sovereign wealth fund GIC and BlackRock among the new investors. Indeed, Klarna has doubled in value over the past year as a 2019 investment round valued it at $5.5bn. Klarna’s growing worth comes despite the 15-year-old company making its first annual loss in 2019 as a result of a rising number of bad debts – a trend that has continued into this year.

Property Owner

House prices boom, but for how long?

Property prices leapt 7.3% year-on-year last month as Britain's housing market boom continues, with lender Halifax reporting mortgage applications at a 12-year high. Figures from the bank show the average residential home sold for £249,870 ($322,877) in September, with the highest annual rise since 2016. Commentators noted political uncertainty had weighed on prices last September, but say the market had still been "extremely strong" since the first national lockdown eased. Prices were up 1.6% on the previous month in a third month in a row of gains. Growth has lost less steam than expected by analysts, who had predicted monthly growth of 0.6%. It comes in spite of the resurgent coronavirus, tighter lockdown restrictions and the ongoing economic crisis, with some experts calling the property boom a "paradox." There seems to have been a fundamental shift in demand from buyers brought about by the structural effects of increased home working and a desire for more space, while the stamp duty holiday is incentivising vendors and buyers to close deals at pace before the break ends next March. Halifax had received more mortgage applications from both first-time buyers and home-movers than at any time since 2008 over the past three months. But experts warn of significant possible downward pressure on house prices in the months to come as the economic downturn eventually dampens the market. Many believe that it is highly unlikely that the housing market will continue to remain immune to the economic impact of the pandemic. The belief is that the release of pent up demand and indeed the stamp duty holiday can only be temporary fillips and their impact will inevitably start to wane. And as employment support measures are gradually scaled back beyond the end of October, the spectre of increased unemployment over the winter may well come into sharper relief.

All

Managing your risk of redundancy

It's an unfortunate reality that, as the furlough scheme winds up, many more people are going to find themselves at risk of redundancy. Whilst the prospect of leaving a job involuntarily can be daunting, the best thing to do if facing this situation is to prepare yourself accordingly. Three immediate musts are:

1. Redundancy pay - Once you know that your position is at risk, you should check your contract to see whether there are any contractual enhanced redundancy pay provisions. If there are, ask for a copy of these. It's important to note that if there has been a practise of paying more than the statutory minimum in the past you may be able to rely on this precedent. If there are no enhanced redundancy pay provisions, those with more than two years of service will have the right to statutory redundancy pay.
2. Notice and time off to look for work - Check your contract to confirm how much notice you are entitled to. Under statute, you will be entitled to at least one week's notice per year of complete service (assuming you are over 22), up to a maximum of 12 weeks. This is the minimum entitlement, and you may be entitled to more. Those who are under notice of redundancy and who have more than two years of service also have the right to reasonable time off to look for work.
3. Your consultation period - You will have consultation meetings with your employers in which you agree on the terms of your redundancy. Your settlement and any time off you might need to look for a new role should be discussed here. You're unlikely to know exactly when you'll have job interviews at this stage, but you should make it clear that you expect reasonable accommodations to be made when needed, especially if your notice period is a long one. If your employer has also mentioned supporting you in further training or other provisions, this is also the point at which you should get these things agreed.

Retired

Equity release concerns

The Sunday Times carried out a mystery shopping exercise with the three biggest equity release companies following a surge in people considering making use of the lifetime mortgage product. The 'paper tried to find out how much a 64-year-old woman would be able to release from her home using calculators on the websites of Sunlife, Key Retirement and Age Partnership. After making inquiries through the companies' websites The Sunday Times received 28 phone calls (sometimes two calls a day from the same company), 28 emails and 14 letters as the firms tried to persuade the 'potential customer' to sign up for a deal. All three providers responded to The Sunday Times's investigation. Sunlife said its advice is impartial and looks at the whole market including alternative options. Age Partnership said prospects often enquire months or years before, and during that time they are provided with regular product updates. Key Retirement said it made sure customers receive specialist advice before proceeding with equity release and if it's not right for a customer they would be informed. There are concerns that equity release seems to be being used to encourage spending that is otherwise unaffordable, while being positioned as ‘normal', further encouraging debt as a way of life. It is, though, a solution that is right in the right circumstances. As ever, discuss with your financial adviser.

Property Owner

Mortgage waiting times increase

Mortgage wait times are soaring – putting homebuyers at risk of losing their dream property.

Before the pandemic started, it took two weeks to get a mortgage offer. Now it can take six weeks. Home working by bank staff has been blamed for causing a massive backlog of mortgage applications that is hammering first-time buyers and delaying house purchases by up to a month. Sources said banks are failing to cope with a sharp rise in applications because so many staff are working from their kitchen tables. But now a report which provides brokers with a single view of lenders' service levels has been launched by Mortgage Brain. The new lender service report collates details of the typical length of time various processes take at multiple lenders to help advisers manage expectations when supporting clients. It comes as lenders deal with record volumes of applications driven by increased activity in the housing market which is having an impact on their response times to applications. Mortgage Brain's report aggregates information made available directly on lender's websites to help keep advisers updated. It covers aspects such as average wait times to speak to different departments and typical application processing times. The information is displayed within the Covid-19 support hub on Mortgage Brain's Criteria Hub website and it is being updated every working day, automatically. It is apparent through conversations with intermediaries and lenders that transparency with regards to expected service levels is vitally important to all parties. The report, it is hoped, will offer brokers a single view of lenders' service levels and therefore save them time visiting multiple websites. But Mortgage Brain said, it would also allow all parties to be absolutely transparent when making recommendations.

Investor / Saver

Investment trusts look attractive

Investors' appetite for income in a dwindling market for dividends has prompted a surge in investment trust launches, with five new potential funds announced in recent weeks. After a quiet year so far for trust launches, with only one new trust floated in February, several were recently announced as fund managers seek to take advantage of low prices for stakes in smaller UK companies while investors are still willing to turn out their pockets for shares. Launches include the Schroder Business Opportunities trust, which is seeking £250m to invest in both public and private small and mid-cap UK companies, the Tellworth British Recovery & Growth which is raising £100m, and the Sanford DeLand UK Buffettology Smaller Companies trust. The Home real estate investment trust (Reit) is raising £250m to invest in accommodation for the homeless. As the pandemic has hit valuations of smaller UK companies, investors are looking to pick up good value. But they are mindful of the lessons from the collapse of Neil Woodford's flagship fund and they are much more mindful of liquidity, and the risks that come with it. Investment trusts are publicly traded, closed-ended funds that trade at a discount or premium to the book value of their underlying assets. Trusts are popular with income investors for their ability to use cash reserves to smooth dividend pay-outs and provide a reliable income stream. Their closed-ended structure means they can hold illiquid assets and unlisted companies without fear of a sell-off. Income-starved retail investors turned to trusts in the wake of the pandemic sell-off, when a record number of UK companies announced cuts or cancellations of their dividends, and they continue to be among the top buys on retail investment platforms. The trust model is much loved by fund managers looking to invest without the risk of an investor sell-off if performance wanes and allows them more flexibility to invest in unlisted or illiquid companies.

Investor / Saver

Investing in the UK – pros and cons

The latest figures from the Investment Association show that UK funds are firmly out of favour with UK retail investors. UK funds suffered net outflows in June and July of £1.1 billion and £912 million respectively. Other categories of fund proved popular over the same period, with global equity, North American and Asian funds seeing strong inflows. The poor performance of the UK stock market this year in relation to many others has clearly taken its toll. The malaise bearing down on UK equities is all too understandable given a 20% fall in Britain's economic output in the second quarter, continuing uncertainties posed by the coronavirus and slow progress towards securing a trade deal with the EU before October's talks deadline. Dividend cuts expected to shave two fifths off the pay-outs of UK companies this year have also impacted a mainstay of the UK investing scene – the equity income sector. As of the end of June, the UK accounted for just 14% of the fund assets owned by UK retail investors. One of the questions raised by this is whether some UK investors have moved out of UK funds on a permanent basis or whether we are simply seeing an effect that will pass in time. In the past, a portfolio with roughly half of its assets invested in the UK and the other half in overseas markets was commonplace. One of the reasons for this was supposedly a behavioural effect called home bias, meaning that investors favoured their home market for reasons of familiarity and a desire not to risk their money in far-flung places. Another reason for home bias has always been a desire to limit exposure to foreign currency risks. For the average UK investor, future spending commitments will mostly be in sterling so, the thinking goes, a large proportion of their investments need to be too. This makes sense up to a point. Arguably though, investing in equities should be more about seeking opportunities to achieve growth or an income or both than currency matching. A lack of exposure to faster growing overseas markets could seriously harm a portfolio's growth potential over the longer term, outweighing currency effects. Many investments in UK companies provide a high exposure to foreign markets and currencies anyway. Businesses like Unilever, BP and Vodafone earn a large proportion of their revenues from overseas markets in foreign currencies and some pay their dividends in foreign currencies too. Overall, around three quarters of the earnings of the UK's top 100 listed companies come from overseas and around half do for the next 2504. So seeking a wholly sterling exposure by investing in UK companies is largely futile. As a result of the poor relative performance of the UK stock market, many stocks now look good value. Internationally as well as domestically the market is unloved but that's a position that could be partially resolved once the UK's trading position with the EU becomes clearer and, in all likelihood, the coronavirus abates next year. We may also have passed through the depths of the dividends crisis, suggesting a brighter outlook for equity income investors. This week, the FTSE 100 company Ferguson – which is predominantly exposed to plumbing and heating markets in the US – said it will restore its dividend to the same level as last year. Other UK companies with the right business models could soon follow suit. Current estimates suggest that UK equities will broadly still produce a dividend yield of more than 3% over the next year even after accounting for dividend cuts and suspensions. While down on 2019 levels, that still compares very favourably with the income achievable from government gilts and cash deposits. Even so, the recent past suggests the UK will continue to suffer stiff competition from other regions and asset classes for investors' money. Asia and emerging markets funds offer investors access to faster growth than that available in the UK owing to growing, young populations not seen in the west.

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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