financial advice centre
Independent Financial Advisers

Your Autumn Newsletter 2021

Award Winning Independent Financial Advisers since 1999

As the year progresses to the season of 'mists and mellow fruitfulness', thoughts inevitably turn to hunkering down with hot chocolate and toasted marshmallows as nights draw in. Autumn is a season traditionally associated with change, as well as themes of comfort, preservation and protection; a time to get things in order.

Time to prepare
In many ways, autumn is the perfect time to get things done and that is certainly the case when it comes to finances. The halfway point in the fiscal year is fast approaching, making it an ideal time to consider your ISA or JISA investments and any other tax-related issues. It's also an opportune time to look at pension arrangements and check your protection needs are fully met.

Don't procrastinate!
While we all know the importance of keeping on top of our finances, it is easy to pop such tasks on our 'must-do list' and then proceed to forget all about them. A recently commissioned poll[1] found 84% of the UK population put off key tasks by either doing nothing or doing something more enjoyable or completely unrelated, and a staggering one in five do this on a daily basis!

Engage with your finances
It is though extremely important to sort out financial arrangements long before you 'need' to. This is particularly the case with retirement planning, and as a recent study[1] has shown, those taking financial advice are four times as likely to have high levels of financial wellbeing - there's no time like the present! It's our business to make sure your finances are in good shape, so please let us help you tick a few more tasks off your 'must-do list'.

1 Aviva, 2021

Piers Mepsted,
Managing Director

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Market Overview | part 1

Newsflow throughout the quarter continued to be dominated by the pandemic and inflation. The Delta variant continues to cause disruption and its impact is still being felt by every sector, with concerns remaining that further mutations of the virus could disrupt the recovery even further. Supply chain issues continued to cause disruption with a noticeable step up in companies referencing supply chain issues, increased shipping costs and the rise in raw material costs in their updates.

While it is unlikely that supply chains will remain in their current disrupted form for the long term, it must also be considered whether the inability to keep up with consumer demand will lead to a period of lost sales which will never be recovered, or simply delay spending until the supply levels return.

UK Economic recovery

Despite this disruption the economic recovery continues to progress. In the UK the ending of restrictions has meant that normal life has resumed in many ways. UK businesses are largely beating expectations, with many now ahead of the pre-pandemic period through 2019, as demand continues to be felt across most industries. From this point onwards it is important for consumer demand and the private sector to pick up the baton of growth, as central bank policy becomes less stimulative heading into the final quarter.

Boris Johnson announced increases in National Insurance and dividend income tax from next April, aimed at raising £12bn to fund higher health and social care spending, that his critics said was both unfair and inadequate. While the plan broke Johnson's election pledge to fix Britain's long-running social care crisis without increasing taxes, the world is a very different place, and the country's budget is in a very different state, than it was when those promises were made.

Market Overview | part 2

US Economy

In the US, the National Bureau of Economic Research confirmed that the recession caused by the pandemic is the shortest ever in US history. Current estimates for US gross domestic product (GDP) suggest that the economy will be back on its pre-pandemic trend before long and points to the country verging on a mid-cycle economy.

Eurozone and Emerging Markets

Data is still positive for the Eurozone and Emerging Markets, which leads us to expect further upside surprise in economic data for these regions. They may not be as far through the cycle as the US. This is understandable when we consider that every country dealt with the pandemic in their own way and has their own scars to show for it. Despite this, US equities have performed strongly over recent months on reducing volatility and already in 2021, the S&P 500 has hit an all-time high more than 50 times.

Inflation

Inflation remained elevated across global markets, but at present there has been little to create chaos or shock in markets. The Office for National Statistics (ONS) reported that UK CPI leapt higher in August, reaching 3.2% year-on-year, the highest level since January 2012. The combination of suppressed prices during lockdown, the 'eat out to help out scheme' running this time last year, rising fuel prices and supply issues have helped to push inflation higher. The ONS was keen to point out they believe "much of this rise in prices is temporary". US CPI came in lower than expectations, with an increase of 0.3%, slightly below forecasts of 0.4%, resulting in a year-on-year rise of 5.3%, down from July's high of 5.4%. The core measure, which excludes food and energy, advanced 0.1%, below expectations of 0.3%, bringing annual core inflation to 4%, 0.2% below forecasts.

Pressure began to mount on the European Central Bank (ECB), as inflation increased to its highest level in almost a decade to 3% in August, from 2.2% in July, exceeding the expectations of most economists. At the point that the data was released, only four eurozone countries had inflation below 2%, down from 16 countries in March. The ECB subsequently announced the decision to moderately lower the volume of bond purchases, but kept all other main policy levers unchanged, including the size of the bond buying programme not linked to the pandemic.

Despite all of this, central banks seem to be dealing well with the situation up to this point. The importance of the banks being open and clear with their rhetoric when it comes to potential changes in policy has been, and continues to be, vital in tempering any concern that may be felt across asset classes. As long as this approach continues, when the time comes for changes to be made, there should be no nasty shocks that take investors by surprise.

Market Overview | part 4

China & Japan

The two regions where newsflow has created volatility in markets this quarter have been China and Japan. Chinese equity markets have fallen substantially during the period, whereas Japanese equities have rallied strongly, making up for the ground which they had lost in the first half of the year.

A raft of regulatory clampdowns in China have caused some fear amongst investors, as numerous sectors have come under pressure. The government revealed it intends to make the education sector non-profit to attempt to stimulate the country's birth-rate, which caused companies operating in the sector to fall. China's Big Tech names have also suffered: Tencent was ordered to give up its exclusive music licensing rights by the antitrust regulator, while Alibaba was hit with a record fine after being accused of abusing its market dominance. These are signs that the Chinese Communist Party does not like threats to its power and it will not hesitate to bring these companies to heel.

Concerns also grew over problems at China's Evergrande Group, with the world's most indebted property developer missing several debt repayments. Fear of contagion rose, which fuelled a stock market sell-off, although some relief was felt as the company announced it would make the next interest payment on one of its largest bonds. The situation, however, is ongoing and it would seem only a matter of time until the developer is no longer a going concern.

Japanese equities have suffered a turbulent time through the first half of 2021 as the country suffered its worst wave of COVID-19 infections and limped through its hosting of the Olympic Games. However, sentiment began to shift to the positives this quarter, in some part driven by the announcement from Prime Minister Suga that he is to step down. Initial jubilation in Japanese stocks was attributed to the fact that Suga's handling of the pandemic has been woeful, and hope grew that his successor would increase stimulus spending to combat the economic damage of the pandemic. The vaccine programme continued apace through the quarter, with over 60% of the population now fully vaccinated, up from just 14% at the end of June, and the country's wave of infections fell.

In conclusion…

Japan and China aside, it has been a quarter of relative calm for markets, which must be considered a positive given the continuing threats of the ongoing pandemic and inflation concerns. Whilst some volatility, both positive and negative, was seen in isolated regions, it has served to highlight the benefits of a diversified portfolio, as the impact of these two outliers did not cause any significant increase in volatility in our portfolios.

Markets and Investments

Outlook	Asset Class	Reasoning
↑	UK Equities	Strong and buoyant commodity prices have been highly supportive for the FTSE 100 this quarter, particularly the surge in oil and gas prices which has led to strong returns for many UK companies. As the global reopening continues, demand for resources is likely to remain high and more domestically focussed companies are set to benefit from the ending of restrictions which has seen 'normal life' resume in many ways. Certain international travels restrictions remain which we believe will only continue to help staycation businesses in the UK and provide additional support for the economy.
↔	US Equities	Many technology companies in the U.S. have struggled to maintain their gains this quarter in the face of inflation and interest rate fears. Looking forward we feel these factors will continue to dictate share price returns in what is such a core part of the U.S. equity market, hence our neutral outlook on the area. Current estimates for US gross domestic product (GDP) suggest that the economy will be back on its pre-pandemic trend before long and points to the country verging on a 'mid-cycle' economy. This means significant upside moves for share prices are less likely across the board as investors price in lower levels of growth looking forward.
↑	European Equities	European inflation increased to its highest level in almost a decade which has led to pressure mounting on the central bank to act accordingly. The main supportive and accommodative policies have remained however which has continued to provide support for large areas of the market. As vaccination roll outs continue to succeed, Europe is well positioned to benefit from an uptick in global activity thanks to a broad base of sectors and industries present in the region.
↔	Asian Equities	Japan has enjoyed notable, positive returns through the quarter, predominantly thanks to a change in leadership with Prime Minister, Suga, announcing he will not run for leadership at the next election. It is hoped that his successor will increase stimulus spending to combat the economic damage of the pandemic and that a more favourable backdrop for Japanese corporates will unfold under the new leader. Outside of Japan, Asian markets more broadly have managed to digest much of the issues present in China and are showing signs of stabilising. Prospects of supply chain issues abating slightly are likely to be a positive for Asian equities.
↓	Emerging Market Equities	China has been the main contributor to the negative returns in Emerging Markets through the quarter, with the region facing challenges over political intervention in certain sectors. Furthermore, Chinese property business, Evergrande, is currently the world's most indebted developer and is getting worryingly close to defaulting on its loans. The immediate outlook remains uncertain as to how these challenges will play out and there is the possibility of contagion across the markets should the developer collapse. Whilst targeted approaches to clamping down on certain industries appear to have quietened down for now, we feel cautious positioning to the region is warranted in the portfolios.
↓	UK Gilts	Gilts have endured another quarter of being whipsawed in response to inflation and interest rate expectations. Perceived elevated inflation risks will continue to act as a headwind for the asset class and investor returns on offer from these assets are still stubbornly low. Increased inflation will likely be transitory, the inherent impact elevated inflation figures have on Gilts means we anticipated volatility to remain high while the inflation outlook remains uncertain. As Gilts are key to providing the portfolios with a 'safe-haven', the elevated volatility at present does not reflect this quality.
↑	UK Corporate Bonds	As with other fixed income investments, the returns of UK Corporate Bonds will continue to be mainly driven by language coming from central banks relating to inflation and interest rate expectations. This has proven a volatile environment for many bonds and provides a rich hunting ground for active investment managers.
↓	Cash	Cash continues to be a vital component of portfolio construction. In volatile markets cash can act not only as a buffer to protect on the downside, but also to allow for flexibility for investors to deploy should attractive investment opportunities present themselves.

In the News

UK dividends see significant recovery in Q2

UK dividends rose by 51% in the three months to June 2021, jumping to £25.7bn on a headline basis, according to Link Group's[1] UK Dividend Monitor. Almost 90% of the increase can be attributed to firms restarting dividends compared with Q2 2020 data. This increase was significantly ahead of expectations of an increase of 31% in Q2.

[1]Link Group, 2021

Triple lock changes for 2022–23

After much speculation, in September, Secretary of State for Work and Pensions, confirmed suspension of the average earnings component of the pension triple lock, to avoid a disproportionate rise of the State Pension following the pandemic. For the 2022-23 tax year only, the new and basic State Pension will increase by the higher of either 2.5% or the consumer rate of inflation.

COVID prompts uplift in grandparental support

Most grandparents are acutely aware of the challenges their grandchildren face as they progress through education and into the workplace. University tuition fees and other costs can leave the upcoming generations with debts before they begin full-time work, making it more difficult for them to accumulate the deposit on their first property purchase.

The impact of the pandemic has added a new dimension to the problem, with disrupted education and a battered economy raising questions about future earnings potential. This has not gone unnoticed by those grandparents fortunate enough to be able to help the next-generation-but-one along the rocky road to their lifetime dreams and ambitions. Many have been moved to upgrade their help.

Evidence that grandchildren have often benefited financially from locked-down grandparents, unable to spend on holidays and eating out, has been provided through research conducted by a leading financial mutual. Scottish Friendly Assurance Society surveyed a sample of grandparents who were already investing for their grandchildren, to see what influence the pandemic had exerted.

Almost half upgrade their largesse

Responses showed that 47% of those grandparents had enhanced the amounts contributed to their grandchildren's savings during the previous 12 months. The main drivers were found to be a reduction in their own spending opportunities during the COVID-19 restrictions and a heightened desire to create a larger savings buffer for their grandchildren at a time of economic uncertainty.

"There are grandparents who do have the discretionary income to put towards family savings and this can be a big support," comments Jill Mackay of Scottish Friendly. "It's also encouraging to see grandparents deciding to invest more of their money rather than save it in cash."

In the News

The Financial Conduct Authority (FCA) has revealed that over £2m was lost to pension scammers in the first five months of 2021.

The average amount lost so far in 2021 is £50,949, compared to £23,689 in 2020.

The FCA research shows that pension holders were nine times more likely to accept 'advice' from someone online than they would from a stranger they met in person.

FCA advice urges everyone who receives a pension offer online to imagine what they would do in real life, by flipping the context.

For instance, if a stranger in a pub told you to put your pension into something they were selling, would you do that?

Signs of a scam

- Offer of a free pension review out of the blue
- Being offered guaranteed higher returns
- Offer to release cash from your pension, even though you're under 55
- High-pressure sales tactics scammers may try to pressure you with 'time-limited' offers
- Unusual investments which tend to be unregulated and high risk.

If you are concerned about any pension offers you receive, don't hesitate to contact us.

'Noise' blocking - good for your portfolio

It's easy to feel bombarded by the constant cycle of negative news headlines or 'noise', which can add to your anxiety about how your investments are doing and uncertainty as to whether your investment strategy is on the right course. It's important to try and block out this noise which could influence you to make hasty or erratic investment decisions.

Set and revisit your goals

Keeping a record of your reasons for investing can help temper any inclination to hastily change your plans. Revisiting your initial decisions allows you to assess whether your long-term priorities remain the same.

Avoid continuous monitoring

Our mobile phones allow us to keep completely up to date, which is obviously important for things like keeping in touch with family, but when it comes to investing, it's best to avoid the temptation to set up alert notifications for funds or companies that you are invested in. Warren Buffett had this advice in 2016 after a period of extreme market volatility saying, "Don't watch the market closely"; advice that still rings true today.

Time in the market

Shutting out the noise to concentrate on the long term, gives your investments a greater chance of yielding positive returns and benefiting from compounding, although there are obviously no guarantees.

A new health and social care tax will be introduced across the UK from April 2022.

The tax will initially begin as a 1.25% increase in National Insurance, paid by both workers and employers. From April 2023, it will become a separate tax on earned income, calculated in the same way as National Insurance and ring-fenced as a health and social care levy. Tax on share dividends is also scheduled to increase by 1.25 percentage points.

In the News

Muddy waters swirl around IHT

In late July, HM Revenue & Customs (HMRC) published its annual statistics on Inheritance Tax (IHT).

These revealed that IHT payments received by HMRC in the 2020-21 tax year totalled £5.4bn, up about £0.2bn (almost 4%) on 2019–20, when receipts were slightly lower than 2018–19. Typically, more than 20,000 deaths per year result in an IHT charge.

The stats show that recent years have seen some reductions in the number of estates affected, which HMRC believes is due to the phased introduction of the residence nil-rate band, which can allow married couples and civil partners up to £1m free of IHT.

A transferable nil-rate band assists this outcome by enabling the transfer of unused IHT allowance upon death to a surviving spouse.

There are steps that can be taken to keep an estate out of range of IHT, or at least reduce any IHT due upon death; these include simple lifetime gifts through to more complex trust arrangements.

Estate planning is a specialist area and, with the added possibility of a revised IHT regime soon, professional input is advisable.

Balancing money and mindset to become a financial wellbeing ‘all-rounder’

A new study[2] has found that people with a financial adviser are over four times more likely to display high levels of financial wellbeing than those who have never received financial advice.

Financial wellbeing relates to the control people have over their financial future. Those with high levels tend to not only meet their long-term financial goals, but also have a clear idea about what makes them happy and what they want from life, thereby allowing them to identify and achieve more meaningful life goals both now and in retirement.

The ‘all-rounder’

This latest analysis was based on a survey of 10,466 UK residents and found that the key to building financial wellbeing is to have both ‘money’ building blocks and ‘mindset’ building blocks. People with the best financial wellbeing scores did well on both fronts; in essence, all money and no long-term happiness plan was found to be no better overall than having a plan but no money.

Respondents with the best possible combination of scores were classified as ‘all-rounders’, with this group financially comfortable and enjoying life now while also planning for their future happiness. Essentially, such people are equipped to achieve the perfect balance between understanding the importance of both money and mindset.

Wellbeing and advice go hand in hand

Perhaps unsurprisingly, the study revealed that people who seek professional financial advice are far more likely to fit into the ‘all-rounder’ category than those who do not. Overall, just 10% of those who had never received financial advice were fortunate enough to combine healthy finances with a positive money mindset, compared to 44% of those who enjoy an ongoing relationship with a financial adviser.

[2]Aegon, 2021

COP26 – how the investment industry is stepping up.

The United Nations 26th Conference of the Parties – also known as COP26 – is being touted as the most important climate changes event since the 2015 Paris Agreement.

Due to be held this November in Glasgow, the COP26 summit will bring together leaders from across the globe to build on the work left unfinished by COP25 and the goals set out in the Paris Agreement.

Why is COP26 so important?

We are already seeing glimpses of what awaits if climate inaction continues; extreme weather events have risen in frequency, bringing devastation to countries across the globe. Furthermore, an alarming climate change report published by the UN's Intergovernmental Panel on Climate Change (IPCC) in August found that "it is more likely than not" that the global temperature will reach the so-called 'tipping point' of 1.5 degrees above pre-industrial temperatures within the next 20 years.

COP26 goals

The conference has four main goals:

1. Secure global net zero by mid-century and keep 1.5 degrees within reach Countries are being asked to put forward ambitious carbon emissions targets by 2030.

2. Adapt to protect communities and natural habitats Countries will work to find ways of protecting and restoring ecosystems and preventing further habitat loss in the future.

3. Mobilise finance Developed countries must work to release trillions in private and public sector finance. COP26 – the investment industry steps up

4. Work together to deliver The challenges presented by the climate crisis can only be tackled by working together.

The investment industry has signalled its intention to play a role in the global climate transition. Launched in December, the Net Zero Asset Managers initiative has grown to over 120 investors managing $43trn – all committed to supporting the net zero goal and investing aligned with net zero emissions.

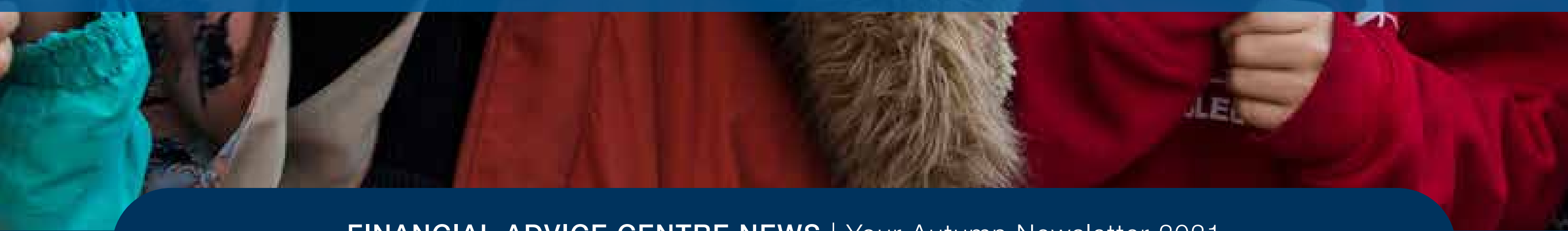
Institutional Investors Group on Climate Change CEO, Stephanie Pfeifer, commented on the popularity of the initiative, "In just six months nearly half of the global asset management sector has committed to achieving net-zero emissions with their clients across the funds they manage. This marks a fundamental tipping point across the investment sector and a significant boost in efforts to tackle climate change and decarbonise the global economy."

Investors increasingly recognise the threat posed by climate change

With so much to achieve to bring climate change under control, it can be difficult to know what we can do at an individual level.

Investors have the power to put their money into companies that are actively working to limit climate change.

We offer a range of investment filters and opportunities in our Environmental, Social and Governance (ESG) funds. Please contact me to chat through how these can work for you.



About Financial Advice Centre Limited

Financial Advice Centre Ltd is a team of Worcestershire based Independent Financial Advisers (IFA's) and Wealth Managers. Founded in 1999, the team has grown to become a leading West Midlands based firm recognised for progressive thinking and a refreshing, transparent approach to managing and advising on client funds.

Our team of IFA's have deep technical expertise and offer an innovative approach to financial advice as seen through our proven pedigree of successful strategies in these areas:

- Bespoke Investment Strategies
- Retirement Planning Solutions
- Wealth Management
- Pension Drawdown and Freedoms
- Life Assurance and Protection
- Inheritance Tax Planning
- Mortgages

We are active Advisers with a unique charging structure focussed on building long term relationships and consistently adding value to clients' investment propositions. Our aim is to provide a service that is both forward-thinking and independent to help clients achieve their financial objectives.

Clients choose to work with us because we simplify a complicated financial environment and consistently deliver results in a way that's easy to understand.

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