

Your Winter Newsletter 2022

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A bumpy start to 2022

The start to 2022 has been a busy one for all our team at Financial Advice Centre given the many changes currently taking place in the investment markets. So, as well as reflecting on the previous quarter's investment markets, we have also taken a look at the key trends driving the current volatility.

To give you some insight and reassurance, we have drawn out the key forces affecting markets and explored in more detail the current geopolitical events impacting investment portfolios.

Our Mortgage Team have been very busy in the last few months and have seen quite a few changes happening with new products and activity with the residential property. We have added a dedicated Mortgages and Property News section in this quarter's newsletter with some of the interesting updates and later life lending products they have been discussing with clients. If you would like explore these or receive their new monthly email of Property and Mortgage updates, please email **Niamh@face-uk.com**

We wish you all a successful start to 2022 and as ever, please contact your Adviser with questions and send any feedback to office@face-uk.com



Piers Mepsted,
Managing Director

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Market Overview | part 1

The fourth quarter of 2021 picked up much where the third quarter ended, with COVID-19 and inflation dominating markets. The two themes were inextricably linked; the pandemic continued to disrupt global supply chains, which then impacted the costs of goods and services. On the demand side, price pressures were also evident, and were again linked back to the recovery from the pandemic-induced recession (in the UK for example, the furlough scheme protected the labour market from the worst of the pandemic). Therefore, consumer demand remained higher than it would have during previous recessions. This combined demand-supply dynamic has led to the higher inflation rates that are currently evident.

US Inflation

In the US, inflation as measured by the Consumer Price Index (CPI) reached 6.8% in November, a level not seen since the early 1980s. However, back then the US was in recession, whereas fourth quarter estimates for gross domestic product (GDP) were on an improving path after the more downbeat third quarter. Forecasts indicated that US GDP would grow 6% on a quarterly basis to end 2021, and that growth would stay above its average trend in the first half of 2022. While the prospect of heightened inflation remains a key risk for markets, this risk should be mitigated to a large degree provided economies continue to grow. As it stands, the possibility of a slowing US economy coupled with high inflation, or 'stagflation', should be averted.

UK Inflation

In the UK, prices accelerated considerably in the fourth quarter. CPI inflation reached 5.1% in November, the highest level since September 2011. The contributions to inflation were broad-based, and therefore could not be pinpointed to any single 'reopening effect' after lockdown restrictions were eased. Nevertheless, the Office for National Statistics described base effects as playing a significant role, given how low prices were during 2020 at the height of the pandemic.

The inflation spike prompted the Bank of England (BoE) to be the first major central bank to raise interest rates in the post-pandemic era. With inflation management the BoE's only mandate, it was not surprising that it thought it necessary to raise interest rates to combat inflation. The implications for asset prices could be profound, particularly in the UK's crucial housing market. If this marks the beginning of a rate hiking cycle in the UK, economic activity is likely to decline.



Market Overview | part 2

Omicron

Although global inflation remains high, it did not lead to significant market volatility during the fourth quarter. However, the emergence of the Omicron strain of COVID-19 in November produced a mini-repeat of the March 2020 market sell-off.

Initial data on the Omicron variant suggested it was more transmissible than Delta and, crucially, that current vaccines would prove less effective. Although global infection numbers reached all-time highs, in the UK at least hospitalisations and deaths did not increase in tandem with the rising case numbers.

While it is too early to draw conclusions, a COVID-19 strain that is less deadly, albeit more transmissible, could be a major and positive development.

Despite the continued risks associated with COVID-19 and inflation, businesses largely continued to trade well and earnings growth remained high.

The largest US companies grew earnings by almost 50% on aggregate across the full year, and early estimates suggested a further 21% growth in earnings in 2022. This indicates that global economic demand will remain strong. The FTSE 100 capped the fourth quarter with a 4.2% rise, and ended the year up 14.3%. The Stoxx Europe 600 rose 22.3% during 2021, showing that the corporate sector is also robust in mainland Europe.

Inflation in the European Union did not reach the same levels as in the US or UK in 2021, which gave the European Central Bank some flexibility on its interest rate policy.

This, together with data that suggested the Omicron COVID-19 variant was milder in terms of hospitalisations, helped European assets to finish the fourth quarter on a strong footing.





News from Japan and China

Economic data from Japan was less positive when compared to Western developed markets. 'Real' GDP (which accounts for inflation) grew only 1.2% in the third quarter, and this was expected to fall to 0.5% for the fourth quarter. Japanese equities gave back most of their third quarter gains after new prime minister Fumio Kishida took office promising 'new capitalism'. This drew criticism from Japan's corporate sector, with the policies compared to those of the Chinese Communist Party. The appointment of Kishida resulted in Japanese stocks falling for eight consecutive days in what was referred to as the 'Kishida Shock'. The prime minister subsequently backtracked on some proposals, including changes to capital gains and dividend taxes.

News flow in Emerging Markets was again dominated by China. The MSCI Emerging Markets index returned -1.7% in the fourth quarter, although excluding China's constituents would have seen the index return 1.1% over the same period. Regulators suspended the shares of heavily indebted property developer Evergrande Group as it continued to address its debt issues. However, there were no indications of contagion across other emerging market countries, although the risk remains.

Meanwhile, Chinese regulators stepped up their scrutiny of overseas listings, announcing that all companies seeking to list abroad would have to register with the Chinese security regulator. Any company considered to pose a national security threat would also be banned from listing overseas. An index of Chinese companies listed in the US fell 15% during the fourth quarter, capping a fall of 44% across the whole year.

The volatility and weakness in Emerging Markets and Japan appears to be idiosyncratic. Japan's election and its new prime minister, did not lead to the usual rally in equity markets. Ongoing issues within China should be contained, but with greater regulatory scrutiny expected to create further weakness in Chinese companies listed abroad. Nevertheless, exposure to wider emerging nations and select Chinese companies remains an area of interest due to the expanding middle classes and economic growth potential.

The Benefits of Diversification

Our diversified portfolio multi-asset approach again mitigated the isolated risks within Japan and Emerging Markets in the fourth quarter. The prospects of a milder strain of COVID-19, and a strong demand side economy, presents significant opportunities in the months ahead.





Markets and Investments

Outlook	Asset Class	Reasoning
↑	UK Equities	In a continuation of the previous quarter, higher commodity prices have remained supportive for many UK companies. It seems the risk of the Omicron variant significantly derailing global reopening is reducing. This should mean more buoyant commodity prices and a recovering travel and tourism sector. To help counter higher inflation, the Bank of England (BOE) were the first major central bank to raise interest rates in the post-pandemic era which should also prove supportive for a major UK sector, financial services.
↔	US Equities	The final quarter of 2021 marked the third consecutive year of double-digit returns for the headline US equity index. US inflation increased at a rate not seen since the 1980s, coming in at 6.8% in November. However, estimates for US gross domestic product (GDP) are improving and expectations are for above average growth in the first half of 2022. While persistently higher inflation is a key risk, it will be mitigated to a large degree if the economy continues to grow which reiterates a 'Neutral' view.
↑	European Equities	The European-oriented Stoxx 600 rose by 22.3% during 2021, supporting the view that the corporate sector is robust in mainland Europe. Inflation in the European Union has not risen to the same extent as it has within the UK which has given the European Central Bank some flexibility on its interest rate policy. This, together with the milder looking Omicron data, supports our positive view that European assets are set to continue on this strong footing.
↔	Asian Equities	In Japan, much of the recent gains have been given back after new prime minister Kishida took office promising 'new capitalism'. This has drawn criticism from Japan's corporate sector, likening it to policies akin to the Chinese Communist Party. The appointment saw Japanese stocks fall for eight consecutive days. Sentiment has been improving as the prime minister backtracked on some proposals. Outside of Japan, Asian markets more broadly continue to digest many of the risks still present in China and are showing signs of stabilising. Prospects of supply chain issues abating slightly continue to be a positive for Asian equities.
↔	Emerging Market Equities	The news flow in Emerging Markets was largely dominated by China's political clamp downs and concerning real estate sector. However, there are yet to be any significant indications of contagion across Emerging Markets, despite it remaining a risk to asset prices across the region. Nevertheless, exposure to wider emerging nations and select Chinese companies remains an area of interest due to the expanding middle classes and economic growth potential within these regions.
↓	UK Gilts	Gilts continue to be hit in response to inflation and interest rate expectations and with no short-term end in sight. Elevated inflation risks will likely act as a headwind for the asset class and due to their low level of income returns their price is likely to react in a volatile manner. Traditionally, the use of assets such as Gilts provided investors with a 'safe haven' but our investment partners retain the opinion that the elevated volatility does not reflect this quality.
↑	UK Corporate Bonds	Certain parts of the Corporate Bond market are well positioned to perform well as the outlook on inflation and interest rates becomes clearer. Due to the sheer size of the Corporate Bond market, it should continue to provide a rich hunting ground for active managers to deliver attractive returns that complement other holdings in the portfolios. Our investment partners maintain the view this backdrop will remain in place for the rest of the year.
↓	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.

Your Adviser Discusses

Tricky times ahead in 2022

The old adage, “it’s not about timing the market, but about time in the market,” has been proven true over the years. Research shows that those who stay invested over the long run in a well- diversified portfolio will generally do better than those who try to profit from turning points in the market.

Financial markets have begun 2022 on a volatile note and we have seen some reductions in portfolio values. Broadly speaking, this is because of concerns over tighter monetary policy settings, rising interest rates and geopolitical tensions. As we speak regularly to investment partners about client portfolios, their research and outlook, we thought it would be helpful to distil the key themes that explain the recent volatility.

Our investment partners feel there is a good chance market volatility will stay elevated ahead of likely US Federal Bank policy changes in March and further uncertainty regarding China’s economic cycle. Nevertheless, they remain confident in the outlook for risky asset classes over the course of 2022.

The key themes impacting investments:

- US Federal Bank repricing should be complete by Q1/Q2 by which time investors should have digested the consequences of higher interest rates
- The prevailing “stagflation tone” should give way to a more constructive tone as we head toward Q2 (falling inflation, easing supply chain pressures, China policy support).
- This should create a window for risk assets to perform better later in the year
- Geopolitical tensions are likely to impact oil and gas markets and regional equity markets
- European gas prices are already elevated, oil prices could be influenced by OPEC supply decisions and the use of strategic stockpiles.
- Over the course of the year, risk asset markets are set to face increased headwinds as global growth slows.

As always, we continue to monitor the market and macroeconomic situations closely.

This may mean some lower market returns, weaker growth and higher inflation. Nevertheless, portfolios remain diversified to riskier asset classes and their predicted outlook remains positive over the course of 2022.



Your Adviser Discusses

Exploring Global Equities in a bit more depth...

What has been happening in equity markets?

Global equity market volatility has increased in recent weeks, with the US market particularly affected. The S&P 500 is down 9.2% from the all-time high it reached in January. Continental European stocks have performed better but are still down 7%. UK equities have been helped by the rotation out of growth stocks and into value sectors like financials and energy, but the FTSE 100 is only flat on the year.

What has driven the decline in stocks?

Several factors have pulled stocks lower of late:

The first is the stage of the economic cycle. Although the phase the global economy is currently in has historically been reasonable for stocks, returns on average have been lower and corrections more frequent.

The second factor is monetary policy. Most central banks have rapidly pivoted to stressing inflation risks. As such, they are steering markets to expect a faster tightening in monetary conditions.

Finally, perceived geopolitical risks have risen, with tensions between Russia and the West running high over Ukraine.

How is the Ukraine crisis affecting markets?

Russia is the world's third-biggest producer of both wheat and oil. Prices of both commodities have soared of late, and the fear is that sanctions could tighten the supply/demand backdrop further, pushing prices higher. Ukraine is also a big wheat and corn producer. If supply were disrupted on the back of an invasion, that could also contribute to higher prices. Higher commodity prices are a tax on consumers. Sustained higher commodity prices, particularly oil, would act as a drag on economic growth and boost inflation. Central banks tend to look through oil supply shocks but given how unsuitably accommodative monetary policy currently is, they may be less willing to be patient this cycle. As such, it goes without saying that a further escalation of tensions between Russia and the West would be a headwind for equities.

Who is most impacted by the Ukraine crisis?

Besides the Ukrainians and Russians, Europe is a notable loser in the event the crisis escalates. Russia is a key trading partner for Europe. Indeed, Europe sources 35% of its natural gas from Russia. It's not in Russia's long-term economic interests to go too far in terms of it using natural gas as a political tool. But it's already done so in recent months to some extent, and the risk is it may go further if the crisis escalates. That would be problematic given that European natural gas prices are already high, and inventories are low.

Is that it then for the equity bull market?

It's impossible to know how the Ukraine crisis will play out. But overall the feeling seems to be that it will not be a gamechanger for the medium-term global economic outlook. Despite the posturing, a Russian invasion of Ukraine would not be easy and would come with a severe economic response. Looking back at past instances of military action shows that the market takes a strangely dispassionate view, confining anxiety to the direct economic impact. If the US and global economy continue to expand as expected, corporate profits should keep moving higher. Meanwhile, even with central banks hiking rates this year and inflation only moderating, interest rates will likely remain well below the rate of inflation for some time.

What is the bottom line?

Sentiment from investment partners is that equity returns will be lower this year than in the last two and 2022 will be much bumpier for equity investors than has been the case so far this bull market. That said, the odds still seem reasonably good that the market will hit new highs before the next bear market (a decline of greater than 20%) occurs. The recent fall in prices has also provided an opportunity for our investment partners to buy some preferred equities at more reasonable valuations.

[If you have any questions about these factors or your portfolios and investments, please do not hesitate to get in touch to discuss.](#)

Mortgage and Property News

Later life lending and mortgages in retirement

Since the start of the pandemic our Mortgage Team have seen a significant increase in queries from clients relating to later life lending and mortgage options for the over 50's, as well as lifetime mortgages (formally known as equity release). Many of these queries relate to those looking into tax efficient ways to obtain funds to help children and grandchildren with house deposits, student fees, weddings, and other major life events. These days it's also not uncommon for people to purchase properties later in life.

Given the introduction of several products designed for a previously neglected demographic of borrowers over the last two years, the market is clearly responding to this national demand. Our Head of Mortgages, Niamh Byrne has provided some insight into the kinds of products available.

Please contact Niamh for further information or to discuss your personal circumstances and options.



What is a lifetime mortgage?

The most popular product designed to release equity from property in the UK for those aged 55 and over is a lifetime mortgage. Unlike the equity release plans of the past, modern plans feature several customer-facing safeguards.

These protections mean that you and your partner are guaranteed to remain the sole owners of your home while having no obligation to make monthly payments.

There are plans available that allow you to release as little as £10,000 tax-free, while creating a further reserve fund. Others will allow you to ring-fence a portion of your home's value, protecting it as a guaranteed inheritance for loved ones. You can even fix the interest rate on your lifetime mortgage for life, so that you can understand exactly how much you will owe over time.

Naturally, as a lifetime mortgage involves accessing some of your property wealth now, there will be less available to you and your beneficiaries in the future. It could also affect your entitlement to means-tested benefits.

Our Mortgage Advisers can help you to strike a balance between your current wants and future needs. If you own your home and want to access your wealth in a flexible and safe way, then a lifetime mortgage could be for you.

A lifetime mortgage allows you to release tax-free cash from your home and benefit from the knowledge there are no required monthly payments and remain the owners of your home. Instead of contractual monthly repayments, the interest owed on the loan will compound and need to be repaid by sale of your property on your death or movement into permanent residential care.



Mortgage and Property News

There are several options available to clients:

Roll up lifetime mortgage: You can release a tax-free cash lump sum from your home. There are no required monthly payments to make, with the interest being added to the mortgage monthly and rolling up over time.

Drawdown lifetime: Release an initial lump sum, while creating a reserve fund that can be drawn down at a later date. Interest is not charged on the reserve until it has been accessed, so this can be a good option to reduce the impact of interest roll-up.

Flexible features: Most products, whether roll-up or drawdown, will come with a variety of optional features designed to increase the flexibility of your borrowing. One of the most popular features is flexible payments, usually allowing you to make optional payments of This can be particularly useful if you wish to safeguard any future inheritance for your loved ones. A “No negative equity guarantee” means that you, or more specifically your estate, will never owe more than the property is worth when sold.

50+ Residential Mortgages

These products are specifically designed for people over the age of 50 where many mainstream mortgages may be unsuitable or not applicable due to age limitations.

Specific mortgage products for this time of life are created with a set term duration. Customers can opt for **interest only**, they make interest payments monthly but must demonstrate there are sufficient means to repay the mortgage at the end of the term. This could be through sale of property (either a main residence usually by downsizing, or a second home) or cashing in investments or assets.

Where customers opt for a repayment mortgage and make all of the payments, the mortgage will be repaid at the end of the term.

As with all mortgages, providers take several sources of income into account in assessing affordability.

For 50+ mortgages these include:

- Pension income (SIPPs, DB or DC private pensions, as well as state pension)
- Sale of the property when downsizing
- Sale of other properties owned
- Sale or maturity of investments, including any endowments or lump-sums entitled to when taking a pension.

If you are interested in these, please get in contact with me to discuss your options and deciding which one suits your financial position better. Together with our Mortgage Team we can pull you together a proposition to best suit your needs.



Mortgage and Property News

Property ‘catfishing’ – new word, old trend?

Catfishing – it’s a term from the online dating world referring to somebody who presents themselves somewhat differently online to when you meet them in person.

And it seems that a lot of prospective homebuyers are suffering the catfishing experience at property viewings, too.

An unpleasant surprise

A recent survey¹ of homebuyers suggested that the vast majority (71%) of homebuyers were catfished by a property during their search.

The most common issue was a property that was much smaller than it appeared in photos, while poor build quality frequently led buyers to believe a property wasn’t worth the asking price.

Buyers were also disappointed by properties that looked more outdated than they’d expected, as well as tiny rooms being advertised as extra bedrooms.

Do your research

To avoid disappointment, try doing some extra research rather than relying on the estate agent’s photos alone. A floor plan can give you an idea of the actual size of each room, while a street view tool could help you get a more realistic view of the state of the property.

¹MoveStreets, 2021



BoMaD boom

Half of all first-time buyer transactions were supported by the Bank of Mum & Dad (BoMaD) in 2021, according to analysis². BoMaD contributions of £9.8bn helped 169,000 first-time buyers onto the housing ladder. Surging BoMaD contributions could become the norm, analysts suggest, after Help to Buy is withdrawn completely from March 2023 onwards.

²Savills, 2021



Fix it?

Almost half of people (49%) have never remortgaged their home according to research³, despite the average Briton having held a mortgage for over 13 years. By failing to consider their mortgage options, for example, securing a fixed term instead of a variable rate, just under a third (32%) know it could probably save them money.

³Barclays, 2021

Mortgage and Property News



Slowing activity but demand remains high

New buyer enquiries rose slightly in the Royal Institution of Chartered Surveyors' (RICS) November survey, with a net balance of +13%, while new instructions fell for the eighth successive month to -18%.

The end of the Stamp Duty holiday, among other factors, has contributed to a dip in housing market activity, with Q3 recording a 26% fall in purchases compared to the previous quarter, according to UK Finance data. Despite this, Q3 purchases remained 10% higher than their 2019 equivalent.

The largest growth in the recent data came in the rental market, with rent increases at a 13-year high. Average rent, excluding London, now stands at £809 per month, according to Zoopla's latest Rental Market Report.

Tenant demand returned a net balance of +48% in November and RICS foresees further upward movement in rent prices because of this demand and a shortage of rental properties. The rental market is currently strongest in the central zones of major cities, where demand is twice as high as in outer zones.

House prices headline statistics

House Price Index (Oct 2021)*	140.7*
Average House Price	£268,349
Monthly Change	-1.1%
Annual Change	10.2%

*(Jan 2015 = 100)

Average house prices in the UK increased by **10.2%** in the year to October 2021.

On a non-seasonally adjusted basis, average house prices in the UK decreased by **1.1%** between September and October 2021.

House price growth was strongest in Wales where prices increased by **15.5%** in the year to October 2021.

Source: The Land Registry
Release date: 15/12/21
Next data release: 19/01/22

Average monthly price by property type - Oct 2021

Property Type	Annual Increase
Detached £425,121	14.0%
Semi-detached £256,537	10.4%
Terraced £216,481	8.8%
Flat / maisonette £222,381	6.6%

Source: The Land Registry
Release date: 15/12/21

Price change by region

Region	Monthly change (%)	Annual change (%)	Average price (£)
England	-1.5%	9.8%	£285,113
Northern Ireland (Quarter 3 2021)	3.0%	10.7%	£159,109
Scotland	0.4%	11.3%	£181,391
Wales	2.6%	15.5%	£203,224
East Midlands	-0.9%	11.7%	£228,290
East of England	-0.1%	11.2%	£332,216
London	1.9%	6.2%	£516,285
North East	-4.8%	9.7%	£147,719
North West	-4.8%	9.8%	£195,325
South East	-0.7%	10.3%	£366,883
South West	-0.7%	9.9%	£298,600
West Midlands Region	-3.3%	8.4%	£226,279
Yorkshire and The Humber	-1.7%	11.1%	£193,675

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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