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Investor / Saver

Equity fund resurgence

UK equity funds enjoyed a resurgence in July as low interest rates and cash savings prompted a flood of new money during the typically quiet summer lull. After two months of net outflows UK equities saw a reversal of fortunes during the period, raking in £245m, making it the second-best selling region behind Global (£1.2bn). Higher sales were driven by UK All Companies funds, which attracted £295m from retail investors, offsetting net redemptions from UK Equity Income (-£46.5m) and UK Smaller Companies (£-3.6m). Though July marked UK equity income funds' 14th consecutive month of net outflows, money exiting the sector has slowed dramatically from £231.6m in June, which IA chief executive Chris Cummings put down to the UK's improving dividend picture. In total, savers ploughed £4.8bn into funds in July, nearly three times higher than a year ago and slightly up on June's net inflow of £4.4bn. Typically, we experience quieter months for net retail sales over the summer period, but this year we have seen consistent and robust inflows through June and July, which speaks to investor confidence being maintained and no rush to spend the savings accumulated during the crisis. We are still early on in the inflation story and have not yet seen any moves away from persistent low interest rates, which makes cash saving less attractive and has potentially helped fund flows in the near term. Some commentators believe that, as interest rates on cash accounts remain historically low and many people sitting on a healthy cushion of savings from the pandemic, we can expect to see more and more money funnelled into investments this year.

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Investor / Saver/ Parent

Investing for children

As we grow older, our financial priorities change. It looks like this is especially the case for grandparents who are big fans of investing accounts like Child SIPPs and the Junior Stocks and Shares ISA. Here's what you need to know about investing money in these accounts and how you can learn some lessons from the older generation.

What is a Child SIPP?

This is often referred to as a Junior SIPP. With SIPP standing for 'self-invested personal pension', it is essentially a pension savings account for children. This may sound a bit ridiculous to have at such a young age but it's a really smart option.

These accounts work like this:

- You can invest up to £2,880 per child per tax year;
- 20% tax relief will apply, topping up the account to give you a potential total of £3,600;
- Investments are then free from UK income and capital gains tax;
- Gifts into a Child SIPP can fall outside your estate for inheritance tax (IHT) purposes;
- Money in the account can only be withdrawn once the holder turns 55 (rising to 57 in 2028)

Even with just a small amount deposited, the fund would potentially grow to a high level by the time your child reaches retirement age. This is due to the power of compound interest over time.

How does a Junior Stocks and Shares ISA work?

These accounts work in a similar way to a normal stocks and shares ISA but with a few tweaks:

- The maximum deposit amount is £9,000 per tax year;
- Your child or grandchild cannot gain access to the funds until they turn 18.

The biggest issues to consider when considering this type of account are:

- Locking the money away means they're not very flexible;
- Investment selection must be wise as some choices could lose value.

Why do grandparents favour the Child SIPP & Junior Stocks and Shares ISA?

According to research from Scottish Friendly, 47% of grandparents increased their investing contributions for their grandchildren over the past year. Child SIPPs were the most popular accounts and Junior Stocks and Shares ISAs were a close second. This makes sense because these accounts provide an excellent way for grandparents to pass on some of their wealth. Using these allowances is a secure and tax-efficient way to provide for your family and potentially create multi-generational wealth. The structure of these accounts prevents the holders from dipping into the money early. So grandparents can rest assured that this money saved away and invested can only be used when the time is right and the recipients reach a mature enough age.

Property Owner

Record house prices

The average UK house price reached a fresh record high in August while annual inflation cooled to a five-month low, after the partial end of the stamp duty holiday in England and Northern Ireland. Halifax, one of the country's biggest mortgage lenders, said the average cost of a property increased by 0.7%, or £1,789, to £262,954, topping the previous peak of £261,642 recorded in May. The annual rate of house price inflation slowed to 7.1%, the lowest since March and down from 7.6% in July. However, compared with June 2020, when the housing market began to reopen after the first Covid-19 lockdown, prices remain more than £23,600, or 9.9%, higher. Greater London continues to lag behind the rest of the country, registering a 1.3% annual rise in prices in August, the smallest in 18 months. Over the latest three months, it was the only region or nation to record a fall in prices, of 0.3%. However, at £508,503, typical properties in the capital remain far above the national average. Commentators believe much of the impact from the stamp duty holiday has now left the market, as highlighted by the drop in industry transaction numbers compared with a year ago. However, while such government schemes have provided vital stimulus, there have also been other significant drivers of house price inflation. Structural factors have also driven record levels of buyer activity, such as the demand for more space amid greater home working. There is also a limited supply of properties for sale. These trends look set to persist and the price gains made since the start of the pandemic are unlikely to be reversed once the remaining tax break comes to an end later this month. Moreover, the macroeconomic environment is becoming increasingly positive, with job vacancies at a record high and consumer confidence returning to pre-pandemic levels.

All

Pension contributions hold up despite Covid

The number of eligible employees participating in a workplace pension remained stable year-on-year in 2020 at 88%, equal to around 19.4 million savers, the latest government figures have shown. Additionally, the data revealed that the total annual savings for eligible savers had risen to £105.9bn in 2020, an increase of £5.5bn from 2019. The public sector saw a £5.7bn increase in the amount saved to £47.1bn, while the private sector recorded a £0.2bn fall to £58.9bn. Employee pension contribution rates in RTI remained relatively stable throughout the 2020/21 financial year, despite the impact of the Covid-19 pandemic. In addition to this, automatic enrolment scheme participation increased from 49% in 2012/13 to 75% of employees in the 2019/20 financial year. The figures also showed that, since 2012, a number of participation gaps have narrowed, with the largest increases seen in agriculture, fishing and distribution, hotel and restaurant industries, and small employers. All industries in the private sector recorded participation rates of 79% or above. In addition to this, the "persistent" gap in participation between age groups has narrowed from a 26% point gap in 2012 to a 4% point gap in 2020, as participation amongst the 22 to 29 age group increased from 24% to 84% over the same period. There was a fear that the financial pressures caused by the pandemic and subsequent lockdown would blow a hole in people’s retirement plans. Despite the uncertainty facing millions of savers in 2020/21 the majority have stuck with their workplace pension, benefitting from both upfront tax relief and matched employer contributions in the process.

Investor / Saver

How seriously should investors take inflation?

Inflation has been on the rise recently in the UK and around the world. Is this rise transitory, as central bankers are saying it is, or persistent and therefore cause for concern? The importance of this question cannot be understated. The high inflation of the ’60s and ’70s did huge damage to economies and financial markets – as did, for a while, the high interest rates in the early ’80s that were needed to stamp it out. Balanced funds – those investing in bonds and equities in similar proportions – performed far worse in real terms during what is known as ‘The Great Inflation’ than they did during the two financial meltdowns of the 1930s. The reason for this was that although the deflation of the ’30s was bad for equities, it was great for real returns from government bonds. The Great Inflation on the other hand hit both. The stated aim for central banks, explicitly or otherwise, is to maintain stable prices and achieve full employment. However, these are not mutually exclusive. There may be circumstances in which a level of employment that is deemed below full can cause inflation to rise. Take the present, for example - unemployment is still high but labour markets are tight – causing wage pressures to increase – because Covid-19-related enforced saving has led, at the margin, people to feel they do not need to work. The role of inflation expectations is critical. Once there is a belief that above-target inflation is here to stay – non-transitory – positive feedback loops, known in the trade as multiple expectations-based dynamic feedback loops, can drive it relentlessly higher. Furthermore, anchored inflation expectations rely on a widespread belief that central banks will do whatever it takes to stop inflation expectations rising too much. For the US Federal Reserve to say that it will tolerate above- target inflation for an unspecified amount of time but also that the recent high and rising inflation is transitory appears contradictory and risks damaging its most important asset: its credibility. At the same time, there is good reason to believe that the current high inflation – in the UK it would now be closer to 4% without the VAT cut – will indeed be transitory. The structural forces that are deemed by many economists to have driven down the natural rate of interest – and with it inflation – over the past 40 years such as ageing populations, high wealth inequality and high labour intensity still prevail. Once the current drivers of high inflation, namely base effects and artificially high savings rates are behind us, these forces may re-engage.

All

Inflation may prompt interest rate rise next year

A Bank of England policymaker has suggested that UK interest rates could rise in the next year, if the recovery continues and rising prices lead to 'more persistent' inflationary pressures. Michael Saunders, a member of the Bank's Monetary Policy Committee which sets rates, told an online session this morning that the economic outlook would determine when interest rates will rise from their current record low of 0.1%. Saunders explained that If the economy continues to recover, and inflation shows signs of being more persistent, then it might be right to think of interest rates going up in the next year or so. He did, however, add that any rise in borrowing costs will depend on economic conditions. Saunders also predicted that any rise in interest rates in the next year or so should be "relatively limited", given that the neutral level of interest is much lower than it used to be [this is the point where rates are neither stimulating the economy nor restricting growth]. It's not clear that we would even need to get back to neutral in that period, Saunders added, in an online event hosted by accounting software package QuickBooks. Inflation dropped back to the Bank's 2% target in July, but is expected to surge to around 4% by the end of this year.

Business Owner

UK dividend recovery at risk

A rapid recovery in UK dividends could be derailed by new rules governing how UK companies manage their cash flow liabilities, actuary Lane Clark & Peacock has warned. UK dividends have jumped 61% this year from the 2020 low with £19bn paid out in the second quarter, according to the Janus Henderson dividend monitor, repairing much of the damage inflicted by last year's crash. Pay-outs had been held, increased or reinstated by 85% of UK companies, with the return of the banking sector to the dividend register in particular driving a big annual bounce. That momentum could be in jeopardy as the Pension Schemes Act 2021, which was designed to tackle some of the vulnerabilities exposed by the collapse of Carillion and BHS among others, comes into force in October, however. All businesses which operate historical defined benefit schemes will now face legal liabilities if they prioritise payments, which could lead to a 'material reduction' in the amount left over to cover pension liabilities in case of insolvency. Experts believe it may be challenging for company directors to understand where the new boundaries lie. At the very least, company boards will have to think much more carefully when setting their dividends about the impact on the position of their pension scheme, whilst schemes will be in a stronger position to press for greater security if a large dividend payment goes ahead. The issue, and its potential burden on the regulator and taxpayers, has been put under intense scrutiny by a series of high-profile scandals in recent years. In 2017, The Pension Regulator ruled that the decision by Sir Philip Green to sell BHS to a former bankrupt with no experience of retail for £1 was primarily motivated by a desire to avoid the company's pension liabilities. After the business collapsed with a £571m hole in its pension scheme, Green was forced to step in and fund it with a £373m bailout.

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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