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Investor / Saver

How to beat inflation

For the past decade there has been a simple answer to how to reliably beat inflation: put your money in an equity income investment trust. They may not offer shoot the lights out performance, but investment trusts dedicated to dividends have provided a comfortable and solid baseline for at least matching consumer prices inflation. The yield on the average UK equity income investment trust has tended to consistently beat inflation – and if you picked the higher yielding trusts or headed overseas for dividends, you could get CPI and then some. That stands in stark contrast to savings accounts, which have on regular occasion paid less than inflation – losing savers' money in real terms. The added advantage for investors was that on top of any dividend pay-outs, they also had the opportunity for capital growth from the share price return. The most important measure of an investment isn't just yield, it is total return - the combination of dividends and growth - but a well-maintained, solid and reserve-backed investment trust dividend provides a nice reliable baseline to put some faith in for at least a chunk of your portfolio. Even if you had managed just average performance from the Association of Investment Companies' UK equity income sector, over the past five years you would have reaped a total return of 41.5% and over the past decade it would have been 140% This is equivalent to roughly 7% and 9% annually, respectively. That's certainly more than a savings account would have paid, which you would expect, as investing in shares involves taking a greater degree of risk. But bear in mind the UK stock market has been lacklustre compared to others – and those periods include the full-on Covid crash – and that's not bad. There's a bit of a problem now though. Consumer prices inflation was revealed last week to have hit 4.2% and is expected to keep climbing, whereas according to the AIC, the average UK equity income trust yields 3.7% Even these reliable investment vehicles no longer have a pay-out that matches inflation. There are, though, investment trust income sectors where reliable dividends can be found – going global is often good and Asia is regularly tipped - and investors should always avoid too much home bias. But what's interesting about the UK income trusts is that they are invested in what is considered a still largely unloved market, but one that analysts suggest is relatively cheap and could be lined up for better times. Last week, it emerged that JP Morgan's analysts had changed their tune and switched from being bearish and then neutral, to advising clients to buy UK stocks. Of course, a rerating for UK shares might not arrive, if it does it won't be a one-way street, and there might still be better investments elsewhere. But at a time when inflation is eating away at our savings more rapidly than it has done for a decade, the triple opportunity of a reliable dividend, from a potentially undervalued part of the global stock market, which is conveniently close to home could be worth considering. As ever, talk to your financial adviser.

Investor / Saver

NS&I interest rate rise

NS&I last week announced an increase to the interest rate on its Income Bonds, with the rise coming into effect on the same day. Previously standing at 0.01% gross/AER, Income Bonds will rise by 14 basis points. It means as of Thursday November 18, Income Bonds will offer 0.15% gross/AER. NS&I said the change aligns the interest rate for Income Bonds with the interest rate for NS&I's Direct Saver account. The Government-backed savings provider said the decision for the increase is in line with NS&I's operating framework to balance the interests of savers, taxpayers and the broader financial services sector. However, some have pointed out this new rate is a far cry from the most competitive easy access accounts right now, which currently offer 0.67%. Commentators were quick to point out, though, that last year they went from offering the best rate by a country mile, to being among the worst. Now the rate has been boosted a little, but for a typical saver, it's not enough to make them flavour of the month again. At 0.15% it's still way below the most competitive easy access account, offering 0.67%, so it is relying on the things that make NS&I special to draw the extra cash in. This includes its brand name and the fact that it is 100% backed by the Treasury. In practice, however, you can hold up to £85,000 of savings with any institution, and your money is protected by the Financial Services Compensation Scheme, so for a typical saver, it is possible to do far better elsewhere. As such, the appeal may be limited mainly to those with big cash balances. You can hold up to £1million in these bonds and it is all protected by the Treasury. For those with enormous amounts of cash, the ease of being able to avoid spreading their cash over 12 separate institutions, in order to protect it, may be enough to persuade them that the loss of interest is worth it.

All

HMRC drive to make tax digital

In the 2015 budget, the Chancellor announced, "the end of the tax return"! Further announcements set out a timetable for digitalising income tax, Corporation Tax and VAT returns. Following consultation, the implementation for income tax and corporation tax has been delayed. However, Making Tax Digital ("MTD") for VAT went ahead for VAT registered businesses above £85k turnover in April 2019 and for all VAT registered businesses from April 2022.What does it mean?

All taxpayers who are VAT registered will no longer be able to type the figures for their VAT returns directly onto the template within their HM Revenue & Customs ("HMRC") online filing account. Instead, taxpayers will only be able to submit the figures from accounting software or specially enabled spreadsheets. This includes overseas businesses, charities, local authorities, academy schools and Government Departments, as well as businesses. Only taxpayers that are averse to technology on moral or religious grounds, the elderly or infirm or those that cannot access digital technology (e.g. no internet access, national firewalls etc.) will be exempt from MTD filing. In addition to filing the VAT return figures, there are now extra record keeping requirements (e.g. a new digital VAT account) and data transferred between sources will need to be done with digital links (e.g. from accounting software to spreadsheet and vice versa or from third party sources). Further down the line, it is likely that HMRC will mandate the provision of increasing amounts of information, up to and including raw source data, although this may be a few years away. However, If you are currently using one of the accounting software packages, you should check what the provider is doing to upgrade to the MTD compatible software and what they will be charging for this. It may be time to consider changing providers or outsourcing the preparation of the VAT returns.

All

Further pressure on the Bank of England to raise interest rates

The Bank of England is under mounting pressure to increase interest rates next month after inflation rose to the highest level in a decade in October amid the squeeze on living standards from soaring household energy bills. A sharp increase in gas and electricity prices pushed inflation as measured by the consumer prices index to 4.2% in October 2021, up from 3.1% in September 2021Which, according to the Office for National Statistics – the highest rate since November 2011. In a sign of the rising pressure on household budgets before what could be a difficult winter, the figure was higher than was forecast by City economists, and more than double the 2% target set by the government for the Bank of England. It comes after the energy regulator Ofgem lifted its consumer price cap after wholesale gas prices soared to record levels as economies around the world emerged from lockdown and supplies of Russian gas to Europe failed to meet demand. And economists expect further inflationary pressures in the coming months after the German government suspended its approval process for the Nord Stream 2 gas pipeline, triggering an increase in wholesale energy prices. The jump in the annual inflation rate was also driven by higher prices in restaurants and hotels after a partial removal of a VAT cut for the hospitality sector, as well as soaring prices for second-hand cars. Much of the increase reflected depressed price levels a year ago as the coronavirus pandemic dragged down economic activity around the world, including the worst recession in Britain for 300 years. Threadneedle Street unexpectedly held back from raising rates this month, confounding financial market expectations. The Bank forecasts inflation will peak at close to 5% next year, in what it predicts will be a temporary increase, before gradually fading back towards its 2% target as disruption caused by the pandemic recedes. Economists said the higher inflation rate and robust employment figures published on Tuesday would give the green light for a rise in interest rates in December from the current level of 0.1%, most likely to 0.25%.

All

Threat of UK withdrawing from Northern Ireland Brexit deal

The so-called Northern Ireland protocol, agreed as part of the Brexit Withdrawal Agreement in 2019, sets out how trade works in the region following the U.K.'s exit from the EU. The protocol was drawn up to protect the EU's single market post-Brexit while avoiding a politically sensitive hard border between Northern Ireland, part and the Republic of Ireland. The agreement includes a nuclear option — either side can unilaterally suspend it if they can show it isn't working. The British government is now threatening to pull the trigger. But will they? And what happens if they do? Article 16 allows either side — the U.K. or the EU — to adopt unilateral measures to protect itself if the agreement has led to "serious economic, societal or environmental difficulties that are liable to persist, or to diversion of trade." However, this tool is not conceived as a permanent way to suspend the protocol — or parts of it. Either side triggering Article 16 should limit their actions to those strictly necessary to tackle whatever problems they are trying to address, and these actions should only be in place until the two sides can agree to longer-term solutions. The U.K. could, for instance, impose their own model of customs paperwork for trade between Great Britain and Northern Ireland on a temporary basis. Since July, Britain has argued the threshold for using Article 16 has been met, according to a senior U.K. official, and it is collecting data to prove that point if necessary. Both sides have tried putting forward their own solutions to try to make the trade rules work better. Four weeks of talks on how to make the checks required by the protocol less burdensome for people and businesses trading with the region have increased the U.K.'s understanding of the EU's proposals put forward in October, but the gap is still substantial, according to officials on both sides. It had been widely expected the British would trigger Article 16 in the second half of November. The U.K. is willing to allow the talks to proceed for a few more weeks, a second British official said, with a fifth round set to take place in Brussels this week. The U.K. previously indicated talks on the protocol should yield solutions by the end of the year, but a Commission official said that the EU has no deadline.

Investor / Saver / Parent

Equity release surges in popularity

A surge in homeowners looking to free up cash from their properties propelled the figure for equity release to £1.05bn in the three months to the end of September, driven by high house prices, gifts to family members and uncertainty induced by the coronavirus pandemic. The value of equity released jumped by nearly one-fifth from £884m in the third quarter of 2020. While the number of loans taken out was slightly down year on year, the average amount of housing wealth freed up was 23% higher, at £101,593 per borrower. Data published this month by equity release provider Key suggested many borrowers were taking advantage of recent house price gains to help family members climb the housing ladder. "Big-ticket items" such as debt management and gifting were behind nearly two-thirds of the equity released in the third quarter, Key said. More than two-fifths (42%) of the cash given to family and friends was used for house deposits. For homeowners over the age of 55, equity release offers a way of unlocking the value of their properties, whether for home improvements, paying off other debts or to help family members. Interest on the loan is paid through the sale of the house at the end of the term, so unlike a conventional mortgage a borrower is not required to demonstrate a minimum level of income to qualify. Interest rates are higher for these "lifetime mortgages" than for most mainstream mortgages. Key said rates on equity release were still "significantly under those recorded historically" but had crept up from a low of 2.8% in the last quarter of 2020 to 3.16% in the latest three-month period. Those who use equity release at a younger age risk accumulating a much higher interest bill when the moment comes to sell up, so many advisers recommend people hold off for as long as they can before taking out a loan. Key's research found 49% of borrowers in the latest quarter were aged between 65 and 74.

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