CHAMPAIN
FINANCIAL SERVICES

Bawtry
Selsfield Road, Ardingly
Haywards Heath
West Sussex RH17 6TJ

01444 229 520
info@champain.co.uk
www.champain.co.uk

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Investor / Saver

Hold tight in market turbulence

The stock market has been rocky lately, and that volatility can be concerning to investors. Coupled with the economic uncertainty we're facing right now (including surging inflation and potential interest rate hikes this year), some investors worry a crash is looming. While nobody knows for sure what is in store for the stock market, there are a couple of reasons you should not worry about a potential crash. The most important thing to remember during times like these is that the market as a whole has a very long history of recovering from downturns. In fact, since 1928, the S&P 500 has fallen by more than 20% on 21 separate occasions. And every time, it eventually bounced back. In theory, the best investing strategy would be to pull your money out of the market right before prices fall, then reinvest when they are at rock bottom. This is called timing the market, and it is a strategy some short-term investors use to make a quick profit. However, this tactic is nearly impossible to pull off successfully. Because the market is unpredictable, no one can say exactly when it will crash or when prices will bottom out. In many cases, the market will dip only to rebound a day or two later. If you sell and prices quickly recover, you will miss out on those potential gains. Similarly, if you wait too long to sell and prices have already fallen substantially, you may end up selling at a loss.

All

FCA switches focus

In December 2021, the UK's Financial Conduct Authority (FCA) issued a consultation paper publishing a revised proposed new Consumer Duty that would govern FCA-regulated firms' interactions with retail clients. According to the FCA, the Consumer Duty would set "a higher standard of care" that would result in "a higher level of consumer protection in retail financial markets." The Consumer Duty would be comprised of three key elements:

(1) the Consumer Principle - The proposed Consumer Principle would require firms to "act to deliver good outcomes for retail clients." Firms would be required to "consistently focus on consumer outcomes and putting customers in a position where they can act and make decisions in their own interests." The FCA acknowledged in the consultation that it is not possible for all clients to receive a good outcome (i.e., clients may lose money on an investment even if the firm acts in compliance with the Consumer Principle). However, firms would be required to "act reasonably to deliver good outcomes."

(2) **"cross-cutting" rules** that would apply to all areas of firm conduct and which reflect the FCA's expectations of how firms will apply the Consumer Principle; and

(3) **outcomes** to provide more detailed expectations for the key elements of the firm-consumer relationship.

The Consumer Duty is targeted at interactions between firms and their retail client base and would apply to all firms in the distribution chain that can influence material aspects of the design, target market or performance of a retail financial product or service. This would include firms involved in the design or operation of a retail product or service, the distribution of a retail product or service, or in the preparation of communications that are directed towards retail clients. While firms with direct retail client relationships would generally have greater responsibility under the Consumer Duty, product manufacturers, distributors, and platform providers would also be required to consider their obligations. The FCA anticipates that the Consumer Duty will "require a significant shift in both culture and behaviour" of regulated firms and result in a "fairer, more consumer-focused and level playing field." The FCA is seeking additional comment on the proposed rules by mid-February 2022 and expects to finalize the new rules by July 31 2022.

Property Owner

Council tax rebate

The majority of households in England are set to benefit from a one-off council tax rebate of £150 from April 2022. Every homeowner with a property graded in bands A to D can receive the rebate which will not need to be repaid. The rebate to bills will be made directly by local authorities from April. This one-off payment will benefit around 80% of all homes in England and is £1billion more generous and more targeted towards lower-income families than a VAT cut on energy bills. On top of this discount, discretionary funding of £144 million will also be provided to support vulnerable people and individuals on low incomes that do not pay council tax, or that pay council tax for properties in Bands E-H. It comes as energy regulator Ofgem announced a £693 rise in its price cap, taking it to £1,971 from April. Globally, there has been a fourfold increase in the wholesale price of gas. Currently, a £700-a-year rise in the average household's energy bills is forecasted this year.

Property Owner

Stamp duty receipts hit new high

The stamp duty holiday has led to a significant fall in the number of people paying this tax over the last quarter. HMRC figures shows the number of property transactions subject to stamp duty land tax (SDLT) were 10% lower in Q4 2021, when compared to the previous three months (Q3 2021). These transactions were also 13% lower than Q4 2020. The SDLT holiday was phased out between 30 June and 30 September last year. HMRC says this caused a substantial rise in the number of transactions being completed earlier in the year, with home buyers keen to avoid paying additional stamp tax charges.

All

House prices hit record high but slowdown looms

The average price of a home rose by 9.7% compared with a year earlier, gaining £24,500 to £276,759. However, monthly growth rose by 0.3%, down from 1.1% in December and the smallest monthly rate of increase since June 2021. Commentators expect the housing market to cool “considerably” this year as Britons are confronted by a cost-of-living squeeze. The Bank of England raised interest rates to 0.5% to curb inflation that it expects to rise above 7% in April. It forecast that rising energy costs and goods prices would lead to a 2% drop in people’s net income after inflation this year — the biggest hit to real incomes since comparable records began in 1990. About 22 million households will have to pay 54% more for their electricity and gas supplies from April 1, when the energy price cap rises to around £2,000. The Bank also predicted that growth in Britain’s GDP would slow. However, while commentators believe house price growth will cool this year, they do not expect prices to fall significantly. Unplanned savings built up during the pandemic will go some way to offsetting the income squeeze. And with around 80% of UK mortgage debt at fixed rates, most mortgage-holders are well insulated from short-term increases. Furthermore, more stringent affordability criteria and mortgage regulation introduced during the 2010s means that recent buyers should be better placed to cope with higher mortgage rates than in the past.

Property Owner

Mortgage rates begin to rise

Nationwide and Santander have become the first major lenders to confirm a hike in mortgage rates following an interest rate increase by the Bank of England. The BoE announced it was upping its base rate from 0.25% to 0.5% to help tackle spiralling inflation rates. One knock-on effect of this, is certain mortgage deals will get more expensive. Nationwide will increase its mortgage rates from March for customers on its "base mortgage rate" and "standard mortgage rate" deals - these will rise from 2.25% to 2.5% and from 3.74% to 3.99% respectively. Customers with tracker mortgages will also be hit with the full 0.25% increase, the lender has confirmed. Santander has also announced that its standard variable rate will rise by 0.25% from March and tracker rates will increase by the same 0.25% amount. Halifax said it would write to customers with mortgages affected by the BoE rate change to let them know their new monthly payment, according to Mortgage Solutions. The lender has not revealed specific amounts. If you are on a tracker mortgage, then your rates go up as these move in line with the BoE base rate.

All

National Insurance rises

National insurance will rise by 1.25 percentage points from April 2022, to pay for the NHS and social care. Boris Johnson and chancellor Rishi Sunak said that the rise "must go ahead" and insisted it was the "right plan", despite calls for it to be scrapped as households face increased food and energy bills. In an article in the Sunday Times, they said the increase would help clear the NHS backlog. But what does this mean in practice? An employee earning £20,000 a year will pay an extra £89 and someone on £50,000 will pay an additional £464. From April those earning under £9,880 a year will not have to pay NICs and will not have to pay the new levy. Shadow levelling up secretary Lisa Nandy told the BBC: "You can't possibly hit people with more taxes at the moment. It's just simply not possible for a lot of people to survive." Conservative MP Robert Halfon opposed the rise and fellow Tories Robert Jenrick and Mel Stride have called for the increase to be delayed. Mr Jenrick said that 2022 would already be "exceptionally hard" for families. Critics argue the rise will have a greater impact on the lower paid, while business leaders warn firms could offset the rise by hiking up prices.

All

What next for the housing market?

Making predictions is never easy. Back in May 2020, the Bank of England warned that house prices could fall by as much as 16% as a result of the coronavirus pandemic. Following this news, homeowners – already navigating their way through an unprecedented situation – braced themselves for even more uncertainty. However, according to the latest figures from our Halifax House Price Index, the housing market is continuing to defy expectations. In fact, despite the impact the pandemic has had on the UK economy, average property prices were up 9.8% in 2021, an increase of over £24,500 – the largest annual cash rise since March 2003. Beyond house prices, there are also other trends we think will shape the market in 2022. For example, it is clear that issues around affordability will continue to feature. Indeed, throughout the pandemic a combination of rising inflation and historically low interest rates meant that many first-time buyers were forced to save for higher house deposits than they may have bargained for. The good news looking into 2022, is that 95% mortgages are once again available to first time buyers. And despite higher inflation and an increase in interest rates, average rates on those mortgages hit a record low in 2021 and continue to remain at low levels in January 2022. Rising house prices are a challenge for significant parts of the UK, with two thirds (67%) of the public believing that the UK housing market isn't helping people get access to affordable and quality homes in their area. Moreover, both homeowners (60%) and renters (72%) agree that house prices are the biggest issue facing the market right now and are sceptical that the housing industry will be able to provide reasonably priced, quality homes post-pandemic. Already this year we've seen the House of Lords Built Environment Committee call for barriers to housebuilding, particularly for SMEs, to be removed in order to help improve housing supply.

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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