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Technical Update No. 95 7th March 2022

All

Households feel the inflation squeeze

UK household incomes are on course to collapse by the most since the mid-1970s after Russia's invasion of Ukraine sent energy prices soaring to new highs, a thinktank has said. The Resolution Foundation said the dramatic increase in global oil and gas prices was forecast to push UK inflation above 8% this spring, causing average incomes across Britain to fall by 4% in the coming financial year – a hit worth £1,000 per household, the biggest annual decline since 1975. Warning the chancellor, Rishi Sunak, that urgent steps were required to help the poorest families in Britain with soaring living costs, the thinktank said weak wage growth and high inflation were expected to drive more children into poverty. Inflation in the UK was already at 5.5% – the highest rate for 30 years – before Vladimir Putin ordered his troops into Ukraine. Now economists are warning that the conflict's impact on global oil and gas prices will add to inflationary pressures around the world. Although the UK sources relatively little of its gas supply from Russia – about 5% of its total imports – fears over supply restrictions amid the escalating conflict have driven up global wholesale prices. The Resolution Foundation said UK inflation could peak at 8.3% this spring, or even exceed the 8.4% rate of April 1991, which was the highest level for the measure of the increasing cost of living since 1982.

All

Bank of England mulls ending post credit crunch rules

Tough rules brought in during 2014 to restrict the amount mortgage applicants could borrow may be reversed following a review by the Bank of England. After the credit crunch and global financial crash in 2007 and 2008, precipitated by mortgage lenders approving millions of loans to borrowers with no ability to repay them, the Financial Conduct Authority introduced strict rules governing how lenders assessed mortgage applications. Instead of lending borrowers a multiple of their annual salary, mortgage lenders had to consider the applicant’s income, expenses and base the amount they would lend on the difference. Known as “affordability assessments”, borrowers also have to be able to show they could afford their mortgage repayments. Further rules from the Bank of England force lenders to “stress” this affordability should their mortgage rate be 3% more than its standard variable rate for two-year fixed rates. The change drastically reduced the amount people could “afford” to borrow if taking a fixed term deal for fewer than five years, after which the 3% “stress test” does not apply. Now the Bank of England believes the affordability stress test could be removed completely without jeopardising the economy’s stability, meaning lenders could go back to lending to borrowers based on income multiples. Letting people borrow more money looks like a risky move at a time when house prices are sky-high and the outlook is uncertain.

But the Bank is convinced the extra test isn’t fair anymore, and that without it, there are still enough protections in place.

Property Owner

Bank pulls mortgage deals

Nervous lenders have pulled more than 500 mortgages from the market in the past month, pushing up prices and leaving borrowers with increasingly expensive loans just as they face rampant inflation, rising taxes and higher energy bills. The number of deals borrowers can choose from plummeted from 5,356 at the beginning of February to 4,838 in early March, according to Moneyfacts. This was the largest drop since May 2020 – when banks were preparing for economic mayhem and house sales had come to a halt due to the pandemic. The advent of fewer deals has forced up the average rate charged on "variable" mortgages by 0.15 percentage points in the past month – the largest single increase ever recorded by Moneyfacts. Hopeful homebuyers now only have four weeks to secure a deal before a lender replaces it with a higher charge, the data showed. In February a borrower could consider their options for six weeks on average. Commentators have observed that banks are on the defensive, just as they were in 2020, given the economic outlook is fraught with uncertainty. As such, lenders are withdrawing deals on a daily basis and the frenzied nature of the market means customers are being forced to make snap decisions. The pace at which deals are withdrawn is leaving borrowers with little time to react. They might discuss a rate with a lender only to call back a day later and find out it's gone. The vast majority of mortgages have gone up in price in the past month amid banks' reluctance to compete and sell loans. Lenders have also braced for more interest rate rises by the Bank of England. The average two-year fixed loan was 0.21 percentage points more expensive, charging 2.65%, the highest since November 2015, Moneyfacts said. A five-year deal now carries 2.88% interest, some 0.17 percentage points more expensive than a month ago.

Investor / Saver / Property Owner

House prices continue to surge

The UK house market shows no signs of cooling down with prices rising at their fastest rate since 2007, according to the Halifax's latest House Price Index. Year-on-year prices grew by 10.8%, representing the fastest pace of annual growth in a decade-and-a-half and pushing the average house price up to a record high of £278,123. The report revealed that it was the biggest one-year cash rise recorded in almost 40 years of index history for average house prices. The February report also found that monthly house price growth rose to +0.5% (or £1,478 in cash terms) following a slower start to the year, while adding that the squeeze on household finances was "still expected to weigh on the market this year". February was also the eighth month in a row that property values had increased, prompting Halifax to describe the market as resilient, and that it showed "little sign of easing". The report added that two years on from the start of the pandemic, average property values have now risen by £38,709 (+16%) since February 2020. Over the last 12 months alone house prices have gained on average £27,215. This is the biggest one-year cash rise recorded in over 39 years of index history. The report identified a lack of supply as one of the main reasons, noting that the "dearth of new properties" being listed had become a long-term trend. The market's buoyance is in stark contrast with the squeeze on household finances, caused by soaring inflation, rising rates and looming tax increases.

All

Top up your pension before end of tax year

Many people concerned about the inflation threat to their savings will be considering whether to put any spare money in an investment rather than a cash Isa in the current tax year. Consumer prices rose 5.5% in January, and previous expectations that the rate would peak just above 7% this spring look conservative given the war in Ukraine. But if you are new to investing, and feel lukewarm or cautious at the prospect, one easy and potentially lower cost option open to many people with a work pension is to top up investments already held in their retirement fund. there are broadly three advantages to opting for the pension: Government and employer top-ups; the opportunity to withdraw a 25% tax-free lump sum when you decide to retire; and lower investment charges which are capped at 0.75% on 'default' funds and can be even lower. Each year you can pay a total amount equal to your salary but up to a maximum of £40,000 (although this can taper down to £4,000 for higher earners) into a pension and benefit from pension tax relief. This is known as your annual allowance. Those who have spare money to put away towards the end of the tax year and who have not used this allowance can still take advantage of pensions tax relief. The taxman automatically tops up pension payments by the basic rate of 20% and those paying higher or additional rates of tax can claim back another 20% and 25% respectively. However, it's important to make sure you are getting the maximum possible advantage from free employer contributions into your pension - not just tax relief from the Government - if you decide to pay in extra. You could do this by increasing the percentage you pay in each month, if your employer is generous enough to match it.

Investor / Saver

Investing in wartime

Stocks these days are much like the weather – only much harder to forecast. For one hour of a trading day, you might be tempted to sit back and relax in the sun. But the next hour, you'll wish you left home with an umbrella as stocks start plunging. Much of that volatility is resulting from Russia's invasion of Ukraine. Research shows that acting on emotional impulses during heightened stock market volatility and has rarely been a good strategy. At the same time, doing nothing can leave you feeling like a sitting duck as stocks seesaw. Instead, investment advisers say now is the time to hit the reset button on your portfolio and ask yourself three crucial questions.

What are my investment goals? There are endless reasons why people invest besides earning more money. Perhaps you're looking to buy a house, fund your child's college education down the road, or be able to retire comfortably. Whatever the reason, consider when you expect to make use of the money you're investing. For instance, if you're not planning to touch the money for another five to 10 years, then what difference does it make if stocks are down 10% since the beginning of the year?

What is my tolerance for risk? It is no secret that taking on a lot of risk by investing in assets that are prone to big price swings, like commodity futures, or are hard to sell off, like real estate, can potentially provide higher rewards than playing it safe. But it also means you're vulnerable to losing more money. It's one thing to say you've got a high-risk tolerance, but it's another when you have volatility in your portfolio and it's making you uncomfortable, then you probably need to take a step back and reassess your risk tolerance.

What's the risk of avoiding risk? First and foremost, evaluate what it is that unnerved you, and made you consider safer investments. If it's a deep drawdown like we've had here in equity prices, is now the best time to be selling in this environment ... or might there be a better time? If you determine that you're taking too much risk and want to move into safer assets like bonds, consider that there's risk in all investments. If you stick to cash, for instance, inflation could potentially erode the value.

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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