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All

Britain's outlook

The Bank of England has predicted another recession, double-digit inflation and half a million job losses as stagflation forces stalk the UK economy. In a dismal set of forecasts, Threadneedle Street warned Britain faces anaemic growth in the coming years as households and businesses tighten their belts to cope with rocketing energy bills and living costs. Growth will slow markedly this year to 3.75% before GDP contracts 0.25% in 2023 and barely rebounds in 2024, the Bank predicted. It marked a large downgrade on its previous prediction of 1.25% growth in 2023 as the war in Ukraine dims global growth prospects. Its rate-setters predicted a 1% slump in output in the final quarter of this year as households face their second biggest plunge in disposable incomes on record. Governor Andrew Bailey admitted the forecasts are "a very weak projection" and point to a "very sharp slowdown" as the Monetary Policy Committee (MPC) predicted a second downturn for Britain in just four years. The darkening in the economic outlook is being driven by the cost-of-living crisis with the Chancellor refusing to dole out more help for families feeling the pinch. Putin's invasion in Ukraine has exacerbated the living standards crunch, stoking inflationary pressures as it pushes up energy bills, food costs and prices at the pump. The MPC warned inflation will breach the 9% mark in the coming months and hit double digits by the end of the year, the highest level since 1982. The rate of inflation in 2022 will be almost double the Bank's previous expectations and remain well above its 2% target by next spring, at almost 7%. Britain's economy will also be hampered by the Bank raising borrowing costs and Chancellor Rishi Sunak cutting back on fiscal support following the pandemic, the rate-setters conceded. The highest inflation since the Bank's independence will eat into household incomes and cut business profits, a squeeze its rate-setters admit they are "unable to prevent".

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Stagflation fears

Britain is facing the risk of stagflation after the Bank of England (BoE) warned that surging energy prices will drive inflation to 10% by the end of the year as the economy stumbles. The pound plunged to its lowest since June 2020 as the BoE hiked borrowing costs to a 13-year high. The BoE predicted that the economy could contract sharply in the last quarter of this year when the energy price cap is lifted, as the cost-of-living crisis hit household spending. The UK economy is also expected to shrink in 2023. Although it might not be a technical recession, Bank of England governor Andrew Bailey agreed that the UK faces a 'very sharp slowdown'. Experts agreed that the UK was on the brink of a recession, and that stagnation worries were rising. Just as in the 1970s, the Bank says external factors are mainly to blame. In 1973, it was the Yom Kippur war that led to 25% inflation by mid-1975. This time it is the war in Ukraine. The Bank is pencilling in another 40% increase in the energy price cap in October, taking the average annual household bill to £2,800. There may be arguments about whether the UK is technically heading for recession because the Bank is not forecasting two consecutive quarters of falling output – but it will certainly feel like it. Living standards are about to take their biggest hit in decades. In another echo of yesteryear, sterling took a dive on the currency markets after the Bank's interest-rate decision.

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Energy suppliers double direct debits

Direct debit payments have at least doubled for one in four energy users, research claims. British Gas and Octopus are among the firms singled out by furious customers in a survey. Energy prices went up by 54% in April, but some direct debits went up 100%. Money expert Martin Lewis, left, said: "That smells wrong." According to Lewis they should only be seeing rises in line with the price cap, 45% to 65%. Households already buckling under the cost-of-living crisis are facing soaring direct debits for energy bills. But one in four customers claim theirs have at least doubled, despite being on a price cap and in credit. A survey by MoneySavingExpert.com found firms including British Gas were among those users complained about. Watchdog Ofgem, which allowed suppliers to increase prices by an average of 54% at the start of April, has vowed to look into the claims. The average rise for Octopus customers was said to be 80%, with 32% claiming their payments had more than doubled. For Shell Energy, 30% said direct debit pay-outs had doubled, with the average increase being 70%. And in the survey, conducted between April 26 and May 3, 27% of E.on users said theirs had gone up by 100% or more, with the average at 71%. Mr Lewis urged affected customers to challenge their payments and if suppliers refuse to lower them then complain to the Energy Ombudsman.

Investor / Saver

Investing in bear markets

It would be nice to anticipate when the market reaches its high point, sell everything, wait patiently for the next crash, with people panicking, and then buy everything back at the low point when the market starts to rise again with frightening force. This is what every investor dreams about, but the reality is quite different. Throughout history, we have had several Bear Markets. No-one will be able to know if and how this correction will turn into something worse, but as a great investor said: ‘you cannot predict, but you can prepare’. So, here are some important things to remember about a bear market:

- Very high volatility
- The 'masses' go more crazy than on other occasions
- After the collapse, the rebounds are strong
- There can be strong rebounds even during the collapse, then down again
- This has already happened
- Expected returns rise
- Affects 99% of investments

Regarding psychology and mass behaviour, markets are a mix of greed, hope, fear, and impatience, all characteristics that in very volatile phases are accentuated and can lead us to make mistakes. Additionally, as almost all asset classes (except cash and a few others) fall in the worst of times, we really feel we have no way out except to sell everything, and that is the worst mistake. What happens after a bear market, however, is just as important: the markets rebound, and they do so violently and quickly. That's why it's important to BE INVESTED when that happens, and that's why unfortunately many investors don't perform in the markets because they are out (having sold) of everything at that time. Looking at the positives of bear markets, as mentioned above, we certainly have a number of aspects to consider: When prices fall, instead of focusing on the falling prices, we should focus on the fact that expected future returns (and risk premiums) increase considerably, so what is actually happening is that you are creating a very favourable environment for investing your money. You cannot predict it, but you can prepare. Knowing this, what we can do is prepare both emotionally and strategically. Knowing as an example that the maximum duration of a bear market has been of 31 months (dotcom) and that the worst decrease could be, for example, 60-65% (subprime), it could be thought to invest the quota of cash (some as an example still have 25% of liquid portfolio) to stagger previewing is entered on base time (every 3 months in bear markets) and percentage (some enter with "x" to every decrease of 15%). There is no single best strategy, but the important thing is to be aware of all of the above, to be prepared, and to be found invested when the markets resume.

Investor / Saver

Over-priced tech stocks in trouble

2022 has delivered a blunt reality check to investors. After a massive rally in 2020 and 2021, the S&P 500 is already down 10% in 2022. According to Peter Schiff, CEO and chief global strategist at Euro Pacific Capital, the worst is yet to come for investors. The US stocks that most people own are the ones that are going to go down the most, most commentators believe. Those are the overpriced momentum-type tech stocks that everybody owns. The argument goes that those kinds of stocks were inflated during the bubble and are going to collapse as the air comes out of that bubble. On a positive note, there are several ideas on how investors can prepare for a seemingly inevitable downturn. Instead of chasing the exciting high momentum tech names, experts suggest looking at recession-proof businesses, especially if they pay reliable passive income to investors. As such investors should consider assets that sell products and services that consumers have to buy, not just what they want to buy. The reason is simple: With rampant inflation, the products that consumers need will become so expensive that they won't have money left to buy the stuff they want.

Property Owner

Higher interest rates signal housing market slowdown

The property market is bracing for the start of the slowdown in the rate of house price growth. The Halifax House Price Index for April showed average values were up 10.8% annually last month to a record £286,079. However, while prices rose for the tenth consecutive month by 1.1%, this was down from 1.5% in March and the annual growth rate has slipped from 11% in the previous two months. Halifax warned that the rate of house price growth is expected to slow as incomes are squeezed. Over the past year, prices for detached and semi-detached properties have risen by over 12%, compared to just 7.1% for flats, Halifax said. Commentators believe that for now, at least, despite the current economic uncertainty, the strong increases we’ve seen in house prices show little sign of abating. Demand in the housing market remains firm and mortgage servicing costs are relatively stable with fixed-rate deals making up around 80% of mortgages on homes across the industry, protecting many households from the effects of rate rises so far. However, the headwinds facing the wider economy cannot be ignored. The house price to income ratio is already at its highest ever level, and with interest rates on the rise and inflation further squeezing household budgets, it remains likely that the rate of house price growth will slow by the end of this year.

Investor / Saver / Retired

Taxman to take £6bn from pensioners

Pension savers are set to lose out on billions of pounds through a hefty tax, as a key allowance on saving has been frozen. While pension saving can be useful for retirement, there are rules, such as the Lifetime Allowance, people will need to bear in mind. This allowance puts a limit on how much a person can save throughout their lifetime without facing tax charges. The Lifetime Allowance is currently £1,073,100, which may seem substantial. However, many could find themselves propelled over this sum due to the Chancellor’s decision to freeze the Lifetime Allowance for five years. The sum will remain at its current level until April 2026, after Rishi Sunak made the announcement in last year’s Budget. Analysis by Aegon has showed the extent of the issue which could be visited upon pension savers. It is thought a saver who withdraws cash in a lump sum will lose an extra £180,125 to the taxman by 2025. The figure represents the tax payable on the difference between the frozen lifetime allowance and the £1.4million had the sum been unfrozen. As incomes grow, and investments rise over time, Britons could inadvertently find themselves brushing up against the limit or exceeding it totally. As a result, individuals will want to keep an eye on their pension, and perhaps consider other savings options to use alongside it.

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