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Investor / Saver

Global dividend outlook remains uncertain

Global dividends set a new Q1 record this year, with all regions experiencing double digit growth, the latest Janus Henderson Global Dividend Index revealed. The quarterly study found global dividends surged by 11% in the first four months of the year, hitting $302.5bn. Underlying growth "was even stronger", according to analysts, at 16.1%. Since the study began in 2009 pay-outs have more than doubled, the data showed. Globally, 81% of companies that issued pay-outs in the first quarter increased their dividends year on year and another 13% held them steady. This means that Q1 2021 provided a "relatively low base for comparison purposes" year-on-year. But this does not diminish the "robust post-Covid economic rebound" that occurred globally in 2021 and at the start of this year, Janus Henderson analysts said. The standout sectors from the first quarter were US, Canada and Denmark, which all broke all-time quarterly records. According to the study, 99% of US companies either raised pay-outs or held them steady. Elsewhere, oil and mining also had a strong quarter, with the former up 29.7% on a headline basis, although "there was increasing divergence between companies", analysts noted. Oil companies such as BP and Shell were some of the headline names forced to cancel dividends in the 2020 sell-off but have experienced an incredibly strong year so far on the back of war in Ukraine driving oil and energy prices to generational highs. As the study noted, both oil and metal prices have been propelled higher following the Russian invasion of Ukraine, helping to sustain dividend growth in these sectors for the time being. It is these interconnected geopolitical issues and the economic headwinds of rising inflation and a cost-of-living crisis which have halted Janus Henderson revising its outlook for the year.

All

The global food crisis

The Bank of England governor warned last week of 'apocalyptic' food price rises. War in Ukraine, climate change and inflation are already taking their toll all over the world. Whilst the cost of living is a problem in Britain, for UN agencies and humanitarian relief workers around the world, the bigger worry is the cost of dying. Sounding the alarm again last week, António Guterres, the UN secretary general, said Ukraine-related shortages could help "tip tens of millions of people over the edge into food insecurity". The result could be "malnutrition, mass hunger and famine in a crisis that could last for years" – and increase the chances of a global recession. The World Food Programme estimates about 49 million people face emergency levels of hunger. About 811 million go to bed hungry each night. The number of people on the brink of starvation across Africa's Sahel region, for example, is at least 10 times higher than in pre-Covid 2019. The adverse impact of Russia's invasion on the availability and price of staples such as wheat, maize, barley and sunflower oil – Ukraine and Russia normally produce about 30% of global wheat exports – has been huge. Ukraine's wheat production this year is likely to be 35% down and exporting much of it may be impossible due to Russia's Black Sea blockade. In March, global commodity prices, recorded by the UN's Food and Agriculture Organisation, hit an all-time high. They remain at record-breaking levels. Russia's war has compounded or accelerated pre-existing food deficits and inflationary trends arising from a host of linked factors: the negative economic impact of the pandemic; resulting supply-chain, employment and transport problems; extreme weather and climate-crisis-related falls in output; spiralling energy costs; and numerous other ongoing conflicts worldwide. Middle-income countries, such as Egypt and Brazil, are exceptionally poorly placed to cope with increased food insecurity, international risk consultants Verisk Maplecroft said in a recent report. Many governments had exhausted their financial and material reserves fighting Covid and incurred large debts. Now the cupboard is bare.

Retired / Tax Planner

How to avoid inheritance tax in 2022

The Office for National Statistics predicts that by 2026-27, inheritance tax (IHT) will raise £7.6bn a year. So it is a good time to revisit the ways to reduce the burden and how to avoid the pitfalls. Inheritance tax on death is charged at 40% on anything over your tax-free allowance of £325,000 – and if you don't entirely use that allowance, the remaining balance can be transferred to your surviving spouse or civil partner – potentially taking their allowance to £650,000. Your family home qualifies for a further discount if your total estate is under £2.35 million, when there's up to an additional £175,000 tax-free when passing on your house to your children or grandchildren. As before, any balance is also transferable to a surviving spouse if not used up on your death. But there are a few ways you can make sure to pass on as much as possible:

The seven-year rule: You can make outright gifts of any value tax free, provided it's at least seven years before your death. The rate starts to fall three years after the gift is made and drops gradually to zero over the following four.

Normal expenditure out of income: If it is an option, you can make regular gifts out of your surplus income, tax-free. Regularity is important, but the amounts given do not have to be the same each year, and there is no limit on their value. But it's worth noting that for the exemption to apply, gifts must not adversely affect your standard of living.

The £3k-a-year rule: Each tax year, you can make one or more tax free gifts up to a limit of £3,000 in total. Any unused allowance may be carried into the next tax year.

Give to charity: If you leave 10% or more of your estate to charity in your will, the IHT rate applied to the rest of your estate will be reduced from 40% to 36%. Alongside that, the value of the charitable gifts themselves will be deducted before IHT is charged.

APR, BPR and woodlands relief: If you have agricultural property or woodlands, you may qualify for full or partial tax relief under APR (Agricultural Property Relief). Similarly, for those that own a share of a business or private trading company, whether AIM-listed or otherwise, Business Property Relief may be available.

Life insurance: There are many reasons to take out life insurance, but one extra benefit is that it could help pay your IHT bill on your death. It doesn't reduce your overall bill, but it can help your family fund the remainder.

Smaller gifting allowances: There are other more modest exemptions available, such as one for small gifts made to any one person not exceeding £250 (provided they have not benefitted from the £3,000 annual allowance). Wedding gifts may also be made tax free. The limits are between £1,000 and £5,000 depending on your relationship to the recipient.

Home Owner

House prices at risk

House prices are at risk as spending power is set to take a big hit, the boss of Nationwide Building Society has warned. Joe Garner said higher prices and interest rates, together with steep rises in the cost of living, mean buying a home will be tougher. He believes higher inflation, which has been exacerbated by the war in Ukraine, is likely to exert a significant drag on the economy in the near term. This may then place significant pressure on household budgets, especially for those on lower incomes who also accumulated fewer savings during Covid-related lockdowns. that could also result in a fall in house prices. His remarks came as the UK's biggest mutual reported a near-doubling of annual profits on the back of buoyant mortgage demand. Despite unemployment hitting a record low this week, surging costs are piling pressure on people's pockets, leaving buyers with less cash to save for a deposit.

All

Interest rates to rise higher?

The Bank of England's chief economist has admitted that the central bank faces its toughest challenge since independence in 1997, and signalled that interest rates need to rise further. Speaking in Cardiff, Huw Pill said that inflation's surge to a 40-year high of 9% in April put him in a "very uncomfortable situation", given the Bank is meant to keep inflation around 2%. But Pill says this discomfort is 'as nothing' compared to the challenges facing poorer families who are most hit by the current cost of living crisis. That's why the Monetary Policy Committee voted to raise interest rates to 1% this month. And Pill gives a clear sign that interest rates will need to rise further, as the Bank walks a 'narrow path'. Underlying wage growth is currently strong, he says, but rising inflation will hit disposable incomes, slowing the economy. Pill said the Bank must avoid "self-sustaining, expectationally-driven" price rises-taking hold (where current high inflation drives up expectations for wages and prices). He concluded by saying inflation is now the biggest challenge since the Bank of England was given responsibility for setting interest rates, 25 years ago this month.

Investor / Saver / Property Owner

Bridging loans grow in the housing hunt

According to the latest Bridging Trends report, total bridging loan transaction completions for Q1 came out at £156.78 million – a significant increase of around 8.5% compared to the same period last year. Evidence suggests that more borrowers than ever before are using bridging finance to speed up and simplify property transactions, avoiding the complications and delays involved in arranging a traditional mortgage. For four quarters in a row, the top reason for bridging finance in Q1 this year was purchasing an investment property – 26% of all bridging loans issued were used for this purpose. Second in line was bridging finance for speeding up property purchases, accounting for 23% of all loans issued during this period. The costs of taking out a bridging loan also decreased during the first three months of the year – down from 0.77% at the end of last year to a new average of 0.71%. Demand for regulated bridging loans is also on the up, accounting for 43.9% of all loans issued – up from 36% in Q4 2021. Interestingly, bridging loans for business purposes saw the greatest decrease in demand, accounting for just 10% of transactions in Q1 2022, down from 15% at the end of last year. Analysts believe the property market continues to be turbulent for a variety of well-publicised reasons and borrowers are looking for increasingly innovative ways to structure their debt. The stigma surrounding bridging also continues to subside as more investors, developers and homeowners are starting to see it as a useful tool for realising their real estate goals and no longer as a last resort.

There are higher risks associated with bridging loans and professional advice is recommended to ensure suitability.

Retired

State pension could rise by £1,000 next year

Anyone who claims a State Pension could receive an extra £1,000 to their pension pot next April. It comes after the rate of inflation shot up, and the UK Government promised to reinstate the "triple lock". The triple lock ties the State Pension to increase by either average earnings, inflation or 2.5% - whichever is higher. This means annual payments are set to rise to almost £10,600 - an increase of £1,000. According to the Telegraph, the new State Pension could break the £200-per-week mark for the first time if the UK Government sticks to its pledge. The Bank of England's latest forecast for inflation states it is set to peak at 10.25%. Laith Khalaf, head of investment analysis at AJ Bell, told The Mirror: "The Bank of England is now forecasting that inflation will run at 6.6% next year." Claimants of the State Pension will be buoyed by the promised re-implementation of the triple-lock, as April saw Chancellor Rishi Sunak announce just a 3.1% increase in the benefit, despite the cost of goods increasing at twice the rate. Those on the old basic State Pension, people who retired before April 6, 2016, will get the same percentage uplift. However, this will be on a smaller sum, as the old State Pension is lower. Labour's Jonathan Ashworth said pensioners "have been betrayed by Boris Johnson" over the decision to not immediately re-introduce the triple-lock - as many are facing energy bill increases of up to 54%.

All

Question marks over pension protection fund rules

The Pension Protection Fund (PPF) is at a really interesting juncture in how its funding strategy will evolve now that it is currently undertaking a stakeholder engagement programme to support its ongoing strategy review. The PPF previously reported a probability of success of 95%, which was ahead of its 90% target, prompting a review of the funding strategy, which will take into account all factors. Speaking at the Pensions Age Spring Conference 2022, PPF head of actuarial levy and policy, Jay Khimji, said the growth in reserves means the PPF would be well placed to withstand potentially high levels of claims from schemes, without risking the security of members' benefits. However, whilst this all feels like good news, it is important to remember that there are still schemes out there with very large deficits, and there's potential for economic and geopolitical headwinds. As such, the PPF is examing all factors. During the session, Khimji also discussed the PPF's new rules for alternative covenant schemes, which have their levy calculated in a different way to other schemes to reflect that the main risk posed by these schemes is investment risk, rather than a failure of a corporate business. Whilst Khimji acknowledged that there are not many, if any, scheme's falling into this definition yet, he emphasised the need for the PPF to recognise the potential for the market to evolve in this way.

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