CHAMPAIN
FINANCIAL SERVICES

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

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

Technical Update No. 124 7th January 2024

Investor / Saver / Retired

UK investment fund launches plunge to 20-year low.

The number of new UK investment funds has reached its lowest level in two decades, according to new data, as asset managers are squeezed by rising interest rates and the cost of living. Figures from US financial services firm Morningstar, reported by the Financial Times, showed 397 UK funds were launched in 2023, down a quarter from the year before and the lowest since the aftermath of the dotcom crash in 2003. The number is also less than half of a peak of 899 in 2010. UK investors have been lured away from funds as 15-year interest rates offer high returns from cash products, with volatile capital markets also putting pressure on asset managers. The regime shift in inflation and rates is impacting how investors think about their portfolios, with many clearly allocating to cash investments as a result. Rising inflation and the cost-of-living crisis have led retail investors to increasingly take money out of funds in recent years. British investment firms were hit by the worst year of outflows on record in 2022, according to the FT, as a net £50bn was redeemed from funds. Data from the Investment Association showed retail and institutional investors pulled £37bn from funds in the 10 months to October 2023. Asset managers have been further squeezed by falling fees and high regulatory costs, with several big names looking to cut spending. The outlook for the investment management sector has deteriorated alongside this as the impact of the outflows on asset managers has been compounded by investors' flight to passive funds, a downward pressure on fees and rising regulatory costs. This has led to a range of cost-cutting and bulking up by these companies in an attempt to shore up the businesses. This scenario has prompted firms like Abrdn and Jupiter to initiate significant cost-cutting measures, including layoffs and restructuring, to stabilize their businesses. Although UK inflation is falling, dropping from 6.7% in September to 3.9% in November 2023, the potential for a different global environment over the next few years means investors would be sensible to allocate their portfolios across a range of asset classes. The long-term structural trends of demographics, deglobalisation and decarbonisation all point to inflation remaining higher than it has been for the last decade and long-term investing will be critical.

Investor / Saver

Highest savings rates in decades may disappear as inflation falls.

Some providers are starting to withdraw the best rates. For example, Union Bank of India was paying 6.05% on its one-year fixed rate bond on a minimum deposit of £1,000, but applications for the account were closed recently. Both fixed and variable savings rates have been creeping upwards over recent months, following 14 hikes in the Bank of England base rate since December 2021. Interest rates currently stand at 5.25% and have remained at this rate for the last four months. However, inflation fell in November to 3.9%, prompting expectations that the Bank of England may not continue hiking rates. The recent interest rate increases have mostly been factored into the top savings rates, with the highest rates for easy access accounts reaching 5.22%, and rates on one-year fixed-rate bonds sitting at 5.30%. The increase in rates has also seen NS&I hike the prize rate on Premium Bonds from 4.00% to 4.65%. It’s also important to note that with inflation currently at 3.9%, there are still some savings accounts offering returns paying more than inflation. With interest rates currently higher than inflation, savers are in a stronger position. So, if they’re accessing the current top-rate easy-access account, which pays 5.22%, they will still be earning 0.62% in real terms at the current rate of inflation. On £10,000 of savings, that is an earning of £62 a year in real terms. However, the increase in savings rates means that savers are earning more on their cash than from stock market returns for the first time since 2015. With the cost-of-living soaring, it’s more important than ever to ensure you’re getting as much in interest as possible from your cash savings. Easy-access savings accounts usually enable you to take your money out whenever you want, without any loss of interest. It’s generally considered wise to have three to six months’ worth of essential spending in an easily accessible account to cover any unexpected costs, such as car repairs or a boiler breakdown. For example, Metro Bank is paying 5.22% on a minimum deposit of £500 on its Instant Access Savings (Limited Edition). Elsewhere, Ulster Bank is paying 5.20% on a minimum deposit of £5,000 on its Loyalty Saver. You can benefit from higher rates in Cash ISAs for tax-free interest, if you aren’t using your £20,000 annual allowance to invest elsewhere. Fixed-rate bonds usually pay more than easy access accounts, but you can’t withdraw money from this type of savings account before the term ends without penalty. For example, Investec is currently paying 5.30% on its One-Year Fixed Rate Saver on a minimum deposit of £5,000. If you need the money, you can close the account, but this will mean some charges, such as loss of interest. However, you will have the security that the interest rate will remain the same until the end of the account term.

Property Owner

Buying or selling a property in 2024?

'Is now a good time to move house?' is one of the most commonly asked property questions, whether it's from first-time buyers looking to get on to the ladder, homeowners in search of a larger family property, or downsizers wondering if making the move really makes financial sense. In truth, there's no perfect time to move home – but by doing your research you can work out whether now is a good time for you, or whether you might be better holding off for a little longer.

The number of properties sold dropped considerably in 2023, as first-time buyers and home movers alike struggled with high mortgage rates. Data from HMRC shows just 90,000 homes sold in October – down 17% year-on-year. Figures from Rightmove, meanwhile, show that homes are taking on average 66 days to find a buyer, compared with 45 days a year ago. A slow market is good news for people looking to buy a home. Zoopla says buyers achieved an average 5.5% discount on asking prices in November, compared to 3.4% in the first half of 2023. Mortgage rates have been high for more than a year now, but there are signs that things are improving for first-time buyers. Three consecutive holds in the Bank of England base rate, and a falling rate of inflation, provide some confidence that mortgage rates may well have peaked. Data from Moneyfacts shows the average two-year fix has dropped from 6.85% in August to 6.04% in December. When buying with a small deposit, every little helps. If you can stretch to a 10% deposit (rather than 5%), you can access considerably cheaper rates and cut your monthly repayments. While rates are high, first-time buyers may be tempted to take out a longer mortgage term to improve affordability. This means you'll ultimately be paying back more money but should rates drop significantly you may be able to remortgage to a shorter term. Previously, 'marathon' mortgages of 35 or 40 years have only been available to the youngest buyers, due to maximum age limits on loans. However, we're now seeing more lenders increase their maximum borrowing ages to 75 or above.

Home movers: should you sell up and move in 2024?

We're a nation obsessed with house prices, but it's important not to fret too much about the value of your home. If the average UK house prices were to drop by 5% overnight, they'd only be back to the level they were in May 2022. The long-term forecast for prices is positive. Savills predicts that prices will start to rise again in 2025 (by 3.5%). Cumulatively, it forecasts an overall rise of 17.9% by the end of 2028. This means that if you're considering progressing up the ladder, house prices are important but they're not the be all and end all.

Homeowners: should you stay put in 2024?

There are several factors that might convince you to put off a move for a year or two. A slow property market and high mortgage rates aren't particularly enticing for homebuyers, and the cost-of-living crisis hasn't gone away. There's also the very real possibility of a general election some time in 2024, bringing about the possibility of new property interventions from the current government, or a new government with new ideas.

All

Financial markets end 2023 on an unexpected high.

Global financial markets confounded gloomy expectations in 2023. Stocks rallied, and bonds reversed heavy losses made early in the year as recession fears were replaced by growing confidence that US policymakers would achieve an economic soft landing. Many major share indices recorded double-digit gains during the year, helped by a strong rally in November and December as falling inflation made traders more hopeful of an interest rate cut in 2024. The FTSE 100 lagged behind the global rally, though, gaining less than 4% in 2023. While geopolitics cast a shadow over the markets, firms linked to artificial intelligence soared as investors backed the potential of the technology. Relief at the US's strong growth in 2023 helped counter concerns over China's recovery, and the slow pace of the European economy, which ended the year teetering near recession. Britain's blue chip share index lagged behind its rivals in 2023, gaining only about 4%. The FTSE 100 index had a bright start, breaking through the 8,000-point mark for the first time to set a new all-time high of 8,047 on 16 February. But the rally lacked legs, and in March the index suffered its two biggest falls of the year as fears of a banking crisis hit. Its third-worst day came in early July, when it lost 2.2% as investors braced for central banks to use interest rates to combat high inflation. With the Bank of England raising the base rate five times during 2023, from 3.5% to 5.25%, UK stocks remained jittery, and the FTSE 100 closed the year at 7,733 points. The FTSE 250 index of smaller companies rose by about 4.5% over the year, picking up gains towards the end of 2023 as traders bet that UK interest rates had peaked. Within the FTSE 100, there were some impressive performances. Rolls-Royce gained 220% as new chief executive Tufan Erginbilgiç pressed on with a turnaround plan for the aerospace company. Shares in Marks & Spencer, another famous UK name, rose by 120% – as a clothing turnaround helped its value swell enough to return it to the blue-chip index in September. Sterling had its best year against the US dollar since 2017. Having begun the year at $1.21, the pound hit 15-month highs in July of more than $1.31 as investors bet that UK interest rates could rise as high as 6.5%. But sterling then fell back through the autumn, as UK inflation eased, and the City began to conclude that monetary policy would not need to be quite so restrictive. With inflation now down to 3.9%, and UK interest rates probably at their peak at 5.25%, the pound ended the year at about $1.27.

All

How to get cheaper car insurance.

Car insurance quotes rose by up to 67% last year, and the increases are expected to continue till mid-2024. This means everyone should check now if they can lock in a cheap quote – even if not at renewal.

Step 1: Get quotes from comparison sites, two or more is best. Comparison sites are technically insurance marketplaces, as they are allowed to negotiate their own prices with insurers (as long as they don't cost more than going direct). Therefore, it's not just that different insurers will appear on different comparison sites, it's also that different sites can have different prices for the same insurer. So it's best to use at least two, and more if you've time, to maximise your chance of getting the cheapest quote.

Step 2: Check if cashback sites' comparisons can beat your top quote. If you use cashback sites, you'll know that if you get your car insurance via them, they will get a 'lead fee' for sending you on to the insurer. Once they're paid the fee by the insurer, the cashback will either be paid directly to you, though some are now starting to only pay the cashback to a charity. t's also worth knowing buying this way can sometimes beat going to the comparison sites but do check your quote through a cashback site isn't more expensive – and it's best to think of the cashback as a bonus, rather than 100% guaranteed as sometimes the deal isn't tracked or the cash paid out.

Step 3: Once you've found the cheapest quote, try to haggle a bigger discount with your existing insurer. Haggling is not a must – especially if you want to try a new provider – but if you're looking to renew with your current insurer, it's well worth contacting it to negotiate.

Step 4: Finally, check the policy carefully before buying. Once you've found the cheapest quotes, there are a few things to do:

- Double-check the quotes. Click through to the insurance provider's own website to read the quote thoroughly, as some comparison sites make a few assumptions to speed up searches.
- Check the insurance company is registered with the Financial Conduct Authority (FCA). The insurer will usually say it is but always check on the FCA register.
- Check if the policy is suitable for your needs and whether you need any add-ons. There are always extras to choose from, so make sure that the policy you've picked only includes the ones you want.

All

UK families are suffering the 'worst decline' in living standards in the G7.

The UK is the only country in the G7 where household budgets have not recovered to pre-pandemic levels. That's the verdict of the Trades Union Congress (TUC), as its analysis reveals that British families would be £750 a year better off if real disposable income had grown in line with other leading economies. The UK is suffering the worst decline in living standards of any G7 country – according to new TUC analysis published on Monday 8 January. Real household disposable incomes in the UK were 1.2% lower in the second quarter of 2023 than at the end of 2019. But over the same period, they grew by 3.5%, on average, across the G7. The union body warned that the contraction in UK household budgets is going to get worse – despite falling inflation. The Office for Budget Responsibility (OBR) forecasts that real house disposable income per head in Britain will fall by an additional 3.4% by the end of the first quarter of 2024 and according to the same forecasts, household budgets won't even recover to their pre-pandemic levels until the end of 2026. The OBR said in November that UK households are suffering the worst period for living standards since modern records began in the 1950s. The TUC says the Conservatives' failure to grow the economy and deliver healthy wage growth has pushed many households further into debt. Analysis published by the union body at the end of December revealed that unsecured debt (credit cards, loans, hire purchase agreements) is set to rise by £1,400 per household, in real terms, this year. The TUC says working people have been left brutally exposed to rising costs and decimated household budgets after years of pay stagnation. UK workers are on course for two decades of lost living standards with real wages not forecast to recover to their 2008 level until 2028. The TUC estimates that the average worker has lost £14,800 since 2008 as a result of their pay not keeping up with pre-global financial crisis real wage trends.

END