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Technical Update No. 128 21st April 2024

All

UK economy: 'Worst is behind us' as optimism among finance bosses rises again.

Optimism among Chief Financial Officers (CFOs) at the UK's largest firms increased for the third consecutive quarter as the UK economy's rosier economic prospects filtered through into corporate confidence. A net 17% of CFOs are more positive about the financial prospects for their business than they were three months ago, according to a Deloitte survey. The average level of optimism over the 16-year history of the survey is a net -1%. Uncertainty also fell to its lowest level since summer 2021, when lockdown restrictions were coming to an end. Optimism among the UK's largest businesses is running at well above average levels, suggesting that the worst of the economic downturn is behind us, with current sentiment at levels that preceded periods of good growth in 2010, 2014 and 2021. For the first time in three years, CFOs expect margins to increase over the next 12 months. The survey showed that fears about inflation are receding. Finance chiefs now expect inflation to be 2.9% in a year's time, down from 3.5% last quarter. The findings reflect the UK's positive start to the year so far, with the economy returning to growth in January and business surveys indicating a "robust" expansion in February and March. However, the survey showed that geopolitics is the most likely factor to disrupt this rosier outlook about the UK economy, the third time in a row fears about geopolitics have been top of CFOs' minds. 51% of CFOs expect the level of geopolitical risk to increase over the next three years whilst just 3% expected risks to diminish. Specifically, they were most worried about the possibility that geopolitical developments could trigger cyber-attacks, with a knock-on effect on the health of the UK economy. While CFOs are more optimistic about the general outlook, and uncertainty has decreased, that does not apply to geopolitics.

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Investor / Saver / Retired

ETFs and their role in retirement portfolios.

As retirement approaches, many investors look at their portfolios with a fresh set of eyes and make adjustments accordingly, and Exchange Traded Funds (ETFs) may enter the picture. They may have rolled their assets out of an employer plan and into a Registered Retirement Savings Plan (RRSP), for one thing. More fundamentally, the portfolio that was geared toward growth in all of those working years is now being tasked with a different job: providing cash flows for living expenses in retirement. That necessitates changes to the portfolio's asset allocation, which may in turn prompt changes to the underlying investments in the portfolio. Of course, active funds can work well in retiree portfolios, too, provided they're of the low-cost variety. Yet, many experts increasingly like ETFs and traditional index funds for the job, for the following reasons:

1) Index Funds and ETFs Lend Themselves Well to Cash Flow Extraction

Retired investors can employ one of two key tacks to extract cash for living expenses from their portfolios: an income-centric approach or a total return/rebalancing approach (or a combination of the two). The good news is that index funds and ETFs lend themselves well to either.

2) Maintenance is simple

In addition to making it easy to extract cash flows, index funds and ETFs also stack up well in terms of limiting a retiree's oversight obligations. That's an important consideration given that many retirees have better things to do with their time than monitor the news flow related to their holdings. Retirees employing index funds will need to keep tabs on their total portfolios' asset-allocation mixes, but very little changes with most core-type index funds and ETFs on an ongoing basis. Index fund and ETF expense ratios are generally pretty stable, too; if anything, they've been trending down over the past decade

3) It's not hard to control a portfolio's risk level with index funds and ETFs

Many retirees prize risk control, and there are plenty of lower-risk index products that have managed downside volatility, including Vanguard Dividend Appreciation ETF VIG and SPDR S&P Dividend ETF SDY. (Some of the low-volatility index products will also likely play good defence, though they weren't around during the global financial crisis.)

4) The tax efficiency stakes may be higher

Taxes are another area where the advantage accrues to index funds and ETFs in retirement. While bond index funds and ETFs have no great tax advantages relative to actively managed bond funds, equity index funds and especially ETFs are incredibly tax-efficient relative to their actively managed counterparts.

All

How much has the state pension gone up by?

UK pensioners have received an 8.5% rise to their state pension income. The substantial figure is due to the "triple lock" which means the state pension increases in line with whichever is the highest out of: average earnings growth measured from May to July each year; inflation measured in the year from September, or 2.5%. As a result, the 12 million people who are currently receiving the state pension, are in for a rise higher than what most private and public sector workers are expecting for their pay packets this year. Pensioners are also set to get more than those claiming benefits for disability, injury or providing full-time care. The state pension is paid every four weeks by the Government to people who have paid enough National Insurance contributions and have reached the qualifying age of 66. If you reached 66-years-old after April 2016, you'll now be eligible for £221.20 a week from the full, new flat-rate state pension. If you reached pension age before April 2016, you'll now get £169.50 a week from the full, old basic state pension, up from £156.20. If you were born between 6 October 1954 and 5 April 1960, you can start receiving your pension at the age of 66 onwards. But if you were born after 5 April 1960 you may have to wait until 67. This will rise to 68 for those born after April 6, 1977. You can use this Government calculator to avoid any errors when working out what applies to you. Some reports have estimated that those who are under 30 at the time of writing may even have to wait until their 70s to access their state pensions. The Conservatives have pledged to continue the triple lock policy if they get into power in the next general election. In March, Jeremy Hunt, the Chancellor, confirmed that the triple lock will be included in the Tory manifesto in the forthcoming general election. Sir Keir Starmer has gone on record to say that he "believes" in the policy but fell short of promising to officially write it into the manifesto, saying that Labour will need to assess the state of the economy. But experts on both sides of the political spectrum have called the future viability of the policy into question.

Investment / Saver

Investing in Fintech: Assessing the Landscape in 2024.

Last year saw investment in fintech continue its downward slump following the post-COVID-19 pandemic boom of 2021-2022. Per KPMG's insights, fintech investment was down a marked 57% year-on-year in first half 2023 and, despite a slight uptick in capital investment in the second half of 2023, investment is still far from its highest levels. Although the post-pandemic boom marked unprecedented levels of investment—a result of locked-away capital suddenly being released to kick-start a sector (and wider economy) in desperate need of a restart—venture capital in 2023 was perhaps still short of the figures the industry needed to continue adequately investing in new startups. And the macroeconomic conditions that have led to the massive slowdown in 2023 still exist today, say commentators. Soaring interest rates, political tensions and the fear of recession will all impact investment decisions. Therefore, venture capitalists (VCs) have been – and must continue to be – far more selective in their investment choices. For the first half of 2024 at least, while macroeconomic uncertainty persists, most experts feel investors will be looking to take less risky bets and seeking to invest in companies that can demonstrate a clear path to profit. Those exploiting rapid developments in AI, will likely be most attractive to VCs. Other trends that will influence investment decisions within the sector will include improvements driven by new consumer duty regulations, tighter but easier-to-use security (such as biometrics), renewed interest in cryptocurrencies and Central Bank Digital Currencies. While AI-based fintechs may garner more interest than others, VCs are increasingly gravitating towards fintechs that offer innovative solutions in digital payments and blockchain technology, as well as AI-driven financial services. Fintechs that are addressing financial inclusion and offering solutions to underbanked or unbanked populations are also gaining traction. This shift aligns with a broader trend towards technology that not only drives profitability but also fosters social responsibility and inclusivity. In addition, these fintech investment preferences for VCs and other investors have been bolstered by new regulations. In the UK, the Financial Services and Market Act 2023 has promoted the nation "as a competitive and innovative place for financial firms to do business". This legislation could have a wide-reaching impact. For example, there are specific sections of the Act supporting crypto adoption and the use of Sandboxes to develop solutions.

All

Retail sales in Great Britain flatline as households continue to feel the squeeze.

Retail sales in Great Britain unexpectedly stalled in March as consumers cut back on spending because of the cost of living, according to new data. British retail sales volumes stagnated at 0% in March after an increase of 0.1% in February, according to the Office for National Statistics. The figures were worse than the 0.3% sales growth expected by economists polled by Reuters as a contraction in food sales and department stores offset higher sales elsewhere. Hardware stores, furniture shops, petrol stations and clothing stores all reported a rise in sales. However, these gains were offset by falling food sales and in department stores where retailers say higher prices hit trading. Looking at the longer-term picture, across the latest three months retail sales increased after a poor Christmas. On an annual basis, sales volumes rose 0.8% over the year to March 2024, weaker than the 1% expected. The gloomy figures underline the dilemma for the Bank of England over when to start cutting interest rates, as it grapples with the twin threat of weak growth and higher than expected inflation in March. Last week, Andrew Bailey, the governor of the Bank of England, said he expected a sharp fall in inflation, which now stands at 3.2%, next month. Figures also showed the jobs market had cooled as the unemployment rate rose to 4.2%. Decisions on interest rates would be influenced by service sector inflation, earnings growth and the state of the labour market. Commentators believe the outlook for 2024 is brighter because of the prospect of interest rate cuts and a boost to consumers from falling inflation and the cut to national insurance in April. What is clear is that the first quarter of the year has been disappointing for many retailers. Lower inflation and the first 2% cut to national insurance, which was felt in January’s pay packets, have yet to translate into a sustained recovery in spending. Most experts, though, are optimistic that the picture will improve from April onwards, particularly if inflation hits the Bank of England’s 2% target, as many economists predict.

Property Owner

Asking prices for UK homes close to record high.

Prices of homes being sold in Britain are close to their record highs after the biggest annual increase in a year, according to an industry survey that suggested the momentum in the housing market of early 2024 extended into April. Property website Rightmove said on Monday its asking prices for residential properties rose by 1.7% in the four weeks to April 13 when compared with the same period last year. Prices sought by sellers rose by 1.1% in month-on-month terms, slowing from a 1.5% increase in the previous four weeks. The average new seller asking prices of £372,324 was only £570 off a record hit in May 2023, Rightmove said. Other measures of Britain's housing market have also shown a recovery in demand and prices, helped by a fall in borrowing costs which surged in 2022 when former Prime Minister Liz Truss's plans for sweeping tax cuts upset financial markets. Rightmove said the number of new sellers was 12% higher than a year earlier and the number of sales was up by 13%. Demand was strongest in the high-end segment where asking prices in 2024 so far are up by the most since 2014. Demand for properties typically sought by first- and second-time buyers - who are typically more mortgage-dependent rose by less, the survey showed. But despite the current optimism, experts believe that these are not the conditions to support substantial price growth. Sellers who are keen to secure their sale will still need to price realistically for their local market and avoid being over-ambitious.

Investor / Saver

Opportunities in sustainable investment.

The UN's 2023 Global Sustainable Development Report reveals that the world is significantly behind on achieving its 2030 Sustainable Development Goal (SDG) targets, largely due to the pandemic-induced delays. There is also noticeable resistance, particularly among US institutional investors, despite the incorporation of governance factors in their assessment criteria, when making investing decisions. Conversely, EU investors are more inclined to support initiatives by investing in companies working towards achieving net-zero greenhouse gas emissions in compliance with legislation. Globally, an estimated investment of around USD 4.2 trillion annually is required to meet the UN's SDGs. This appears attainable given that the total financial assets industry (comprising banks, asset managers, and institutional investors) stands at approximately USD 379 trillion. By the end of 2022, global investments in sustainable assets reached USD 30.3 trillion, with non-US markets exhibiting a 20% growth in assets. While there's still a considerable journey ahead, sustainable investments have become an undeniable force in capital markets, demonstrating increasing strength year after year. Managers are adopting diverse sustainability aspects in their investment strategies, including factor-based screening, ESG/BRSR norm integration, and funding companies engaged in impact investing. However, to address concerns like greenwashing, the country will require an efficient and reliable control and audit system to verify BRSR reports, ideally managed by a not-for-profit government organization like AMFI. SEBI's regulation of BRSR reporting for the top 1000 stock exchange listed companies by 2027 (top 250 companies by 2024) underscores the importance of comprehensive coverage across all segments of the capital markets, including fixed income, venture capital, and private equity funds. Companies investing in clean and green businesses stand to benefit in the long term, making capital allocation in such areas a strategic consideration. Opportunities abound in both public and private markets, ranging from public transport, private vehicles, solar energy, chemicals, green construction, recycled infrastructure materials, agriculture (including water conservation, vertical farming, agroforestry, and biodynamic farming), to data analytics (encompassing digitisation and AI). Ultra-High Net Worth Individuals (UHNIs) and Family Offices can play a pivotal role in increasing allocations towards sustainable investments. Starting with a modest 5% exposure to such investments, the ultimate goal over 3-5 years should be to allocate 25-30% of investments to companies and ventures actively employing technologies to reduce their carbon footprint. Help can be taken from bespoke wealth managers and multi-family offices who offer tailored investment opportunities, assessing the ESG commitments of investee companies using research, models, and scores to monitor and benchmark investments.

Investor / Saver

Judge approves Woodford fund redress scheme: what does it mean for investors?

A high court judge has approved a redress scheme set up for investors of the Woodford Equity Income Fund, bringing them one step closer to getting money back, nearly five years on from its collapse. After hearing arguments from interested parties, Mr Justice Richards said he 'saw no reason' to overrule the overwhelming number of investors who supported the compensation plans. Link Fund Solutions and the Financial Conduct Authority (FCA) announced a scheme in April to recover some of the remaining losses suffered by investors in the collapsed Woodford Equity Income Fund. The scheme will pay back up to around £235m. The FCA said the scheme will recover approximately 77p in the pound for investors in the fund, though this figure has been contested by activist group Transparency Task Force, which argues it does not represent the 'true losses' of investors. The key drawback of the scheme is that investors will no longer be able to take claims against Link Fund Solutions to the Financial Ombudsman Service (FOS) or the Financial Services Compensation Scheme (FSCS). When investors in the fund were called to approve or reject the scheme, more than 54,000 voted and nearly 94% backed the scheme. The FCA has said this scheme 'won't be the end of the story', as it continues to investigate other parties involved. Eligible investors – who didn't take out their investments before the fund was suspended – shouldn't need to actively seek out this compensation. If you're invested directly into the fund, Link Fund Solutions should contact you about the scheme. If you invested through an investment platform or broker, they will receive these communications, which they should then pass on to you. The first redress payment is expected in April, though if this judge's ruling is appealed, that could be pushed further back. The first pay-out from this settlement redress will be an amount between £180m and £200m.

Property Owner

Large family homes are hot property again as asking prices jump.

A rebound in the market for large family homes helped property asking prices rise for the fourth consecutive month, according to Rightmove. The price of the average newly listed property rose by 1.1% or £4,207 in April to £372,324. And the property website said a driving factor behind the current growth was sales of larger homes at the top of the ladder, where asking prices leapt 2.7% in a month and are rising at the fastest pace seen since 2014. The latest increase means the average newly listed property has gone up in price by 1.7% since April 2023, and is only £570 below the peak in asking prices recorded in May last year. This means prices are rising more slowly in the more mortgage dependent first-time buyer and second-stepper sectors. Rightmove is also reporting a far busier start to the year than it saw in the first four months of 2023. The number of new sellers coming to market is up 12% compared to this time a year ago, while the number of sales being agreed is up by 13%. However, once again a lot of the activity is coming in the top-of-the-ladder sector, which is comprised of four-bed and five-bed properties. The number of new sellers in this sector is up by 18% compared to this time last year, and the number of sales agreed is up 20%. Estate agents say the increased choice in the larger homes sector is encouraging previously reticent homeowners to come to market, creating a cycle of more new listings leading to more sales activity. n the more mortgage-dependent first-time buyer market, the number of new sellers is up by 10%, and number of sales agreed is up by a more modest 9%. Mortgage rates have not fallen as much as some people were expecting at the start of the year and recently rates have been edging up. Since the start of February the average two-year fixed rate mortgage has risen from 5.56% to 5.81%, according to Moneyfacts. Meanwhile, the average five-year fix has risen from 5.18% to 5.38%. While some buyers, across all sectors, will feel that their affordability has improved compared to last year due to wage growth and stable house prices, others will be more impacted by cost-of-living challenges and stickier than expected high mortgage rates. Despite these factors, it has been a positive start to the year in comparison to the more muted start to 2023.

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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