BONUM WEALTH
CHARTERED FINANCIAL PLANNERS

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Your Window on
Wealth
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Grounds for economic optimism as we journey through the autumn

Although the strength and speed of the global recovery over the first half of this year exceeded most expectations, the economic outlook inevitably remains uncertain. However, while future growth prospects are likely to stay closely linked to the future path of the virus, as we journey through autumn there do appear to be grounds for optimism.

Stronger recovery predicted
Over the summer months, forecasting agencies took turns to upgrade their growth projections for developed nations as a succession of economic data proved stronger than analysts had predicted. In its latest assessment, for example, the International Monetary Fund (IMF) increased its combined 2021 growth forecast for advanced economies by half a percentage point, primarily due to the success of vaccine rollouts and government stimulus measures supporting recovery.

Risks and uncertainties
The IMF assessment though, did highlight a divergence in fortunes between rich and poor nations due to differing levels of access to vaccines. As a result, an offsetting downgrade across emerging markets and developing economies meant this year's overall global growth forecast actually remained unchanged.

Ongoing concerns surrounding inflation also persist, despite policymakers' insistence that the recent upward trend in prices will prove transient. Furthermore, the current mammoth levels of spending by governments and central banks can only be a temporary phenomenon and, when stopped, will impact on growth.

Grounds for optimism
While the outlook is therefore expected to remain relatively uncertain, there are grounds for investor optimism. Market fundamentals, for instance, remain comparatively strong, with earnings growth still being fuelled by pent-up demand as economies reopen, and companies starting to invest again as the recovery has gathered momentum.

Diversification remains key
There is no question that the world is in a period of immense change, with issues relating to the pandemic, as well as sustainability, fundamentally altering the investment landscape. Some things however do not change, like the importance of holding a diversified investment portfolio and the need for expert financial advice. That's where we come in.

Muddy waters swirl around IHT

In late July, HM Revenue & Customs (HMRC) published its annual statistics on Inheritance Tax (IHT). These revealed that IHT payments received by HMRC in the 2020-21 tax year totalled £5.4bn, up about £0.2bn (almost 4%) on 2019–20, when receipts were slightly lower than 2018–19. Typically, more than 20,000 deaths per year result in an IHT charge.

The stats show that recent years have seen some reductions in the number of estates affected, which HMRC believes is due to the phased introduction of the residence nil-rate band, which can allow married couples and civil partners up to £1m free of IHT. A transferable nil-rate band assists this outcome by enabling the transfer of unused IHT allowance upon death to a surviving spouse.

There are steps that can be taken to keep an estate out of range of IHT, or at least reduce any IHT due upon death; these include simple lifetime gifts through to more complex trust arrangements. Estate planning is a specialist area and, with the added possibility of a revised IHT regime soon, professional input is advisable.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

The Financial Conduct Authority (FCA) does not regulate Will writing, tax and trust advice and certain forms of estate planning.

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IN THE NEWS

ESG assets to top $50trn by 2025

ESG assets are forecast to exceed $50trn (£36.5trn) – over a third of projected global assets – by 2025, according to Bloomberg Intelligence[1]. The analysis comes as environmental, social and governance factors are becoming increasingly important to investors across the globe.

"The pandemic and the global race to net zero carbon emissions have put ESG criteria into orbit – from niche to mainstream to mandatory", said Adeline Diab, Head of ESG and Thematic Investing EMEA & APAC at Bloomberg Intelligence.

UK dividends see significant recovery in Q2

UK dividends rose by 51% in the three months to June 2021, jumping to £25.7bn on a headline basis, according to Link Group's[2] UK Dividend Monitor. Almost 90% of the increase can be attributed to firms restarting dividends compared with Q2 2020 data. This increase was significantly ahead of expectations of an increase of 31% in Q2.

Income rich, cash poor – the wealthy with no savings

For households with a six-figure income, covering a major unexpected bill is just a drop in the ocean, right? Wrong. Research[3] has revealed that 23% of households with an income of £100,000 would be unable to cover an unexpected bill or survive more than three months without their income. This is also true of over one in ten households earning over £150,000. Just as high earners have more coming in each month, they tend to have more going out. Saving can be difficult when your outgoings are high, but it is essential for improving your resilience to financial shocks.

[1]Bloomberg Intelligence, 2021, [2]Link Group, 2021, [3]hl, 2021

COVID prompts uplift in grandparental support

Most grandparents are acutely aware of the challenges their grandchildren face as they progress through education and into the workplace. University tuition fees and other costs can leave the upcoming generations with debts before they begin full-time work, making it more difficult for them to accumulate the deposit on their first property purchase.

The impact of the pandemic has added a new dimension to the problem, with disrupted education and a battered economy raising questions about future earnings potential. This has not gone unnoticed by those grandparents fortunate enough to be able to help the next-generation-but-one along the rocky road to their lifetime dreams and ambitions. Many have been moved to upgrade their help.

Evidence that grandchildren have often benefited financially from locked-down grandparents, unable to spend on holidays and eating out, has been provided through research conducted by a leading financial mutual. Scottish Friendly Assurance Society surveyed a sample of grandparents who were already investing for their grandchildren, to see what influence the pandemic had exerted.

Almost half upgrade their largesse
Responses showed that 47% of those grandparents had enhanced the amounts contributed to their grandchildren's savings during the previous 12 months. The main drivers were found to be a reduction in their own spending opportunities during the COVID-19 restrictions and a heightened desire to create a larger savings buffer for their grandchildren at a time of economic uncertainty.

"There are grandparents who do have the discretionary income to put towards family savings and this can be a big support," comments Jill Mackay of Scottish Friendly. *"It's also encouraging to see grandparents deciding to invest more of their money rather than save it in cash."*

Triple lock changes for 2022–23

After much speculation, in September, the Secretary of State for Work and Pensions, confirmed suspension of the average earnings component of the pension triple lock, to avoid a disproportionate rise of the State Pension following the pandemic. For the 2022-23 tax year only, the new and basic State Pension will increase by the higher of either 2.5% or the consumer rate of inflation.

National Insurance and dividend tax rises

A new health and social care tax will be introduced across the UK from April 2022. The tax will initially begin as a 1.25 percentage point increase in National Insurance, paid by both workers and employers. From April 2023, it will become a separate tax on earned income, calculated in the same way as National Insurance and ring-fenced as a health and social care levy. Tax on share dividends is also scheduled to increase by 1.25 percentage points.

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COP26 – working together to tackle the climate crisis

The United Nation's 26th Conference of the Parties – COP26 – is recognised as the most important climate change event since the 2015 Paris Agreement. Due to be held this November in Glasgow, the summit will bring together world leaders to build on the work left unfinished by COP25 and the goals set out in the Paris Agreement.

The main goals include working together to secure global net zero by mid-century, mobilising finance, and adapting to protect communities and natural habitats.

The investment industry has signalled its intention to play a role in the global climate transition. Launched in December, the Net Zero Asset Managers initiative has grown to over 120 investors, managing $43trn – all committed to supporting the net zero goal and investing aligned with net zero emissions. COP provides an opportunity for investors to consider how they can innovate in developing solutions to climate issues and in financing sector transition.

Institutional Investors Group on Climate Change CEO, Stephanie Pfeifer, commented on the popularity of the initiative, *"In just six months nearly half of the global asset management sector has committed to achieving net-zero emissions with their clients across the funds they manage. This marks a fundamental tipping point across the investment sector and a significant boost in efforts to tackle climate change and decarbonise the global economy. There's a lot more to achieve, but the sector is increasingly on a path to a net-zero future."*

Balancing money and mindset to become a financial wellbeing 'all-rounder'

A new study[4] has found that people with a financial adviser are over four times more likely to display high levels of financial wellbeing than those who have never received financial advice.

Financial wellbeing relates to the control people have over their financial future. Those with high levels tend to not only meet their long-term financial goals, but also have a clear idea about what makes them happy and what they want from life, thereby allowing them to identify and achieve more meaningful life goals both now and in retirement.

The 'all-rounder'

This latest analysis was based on a survey of 10,466 UK residents and found that the key to building financial wellbeing is to have both 'money' building blocks and 'mindset' building blocks. People with the best financial wellbeing scores did well on both fronts; in essence, all money and no long-term happiness plan was found to be no better overall than having a plan but no money.

Respondents with the best possible combination of scores were classified as 'all-rounders', with this group financially comfortable and enjoying life now while also planning for their future happiness. Essentially, such people are equipped to achieve the perfect balance between understanding the importance of both money and mindset.

Wellbeing and advice go hand in hand

Perhaps unsurprisingly, the study revealed that people who seek professional financial advice are far more likely to fit into the 'all-rounder' category than those who do not. Overall, just 10% of those who had never received financial advice were fortunate enough to combine healthy finances with a positive money mindset, compared to 44% of those who enjoy an ongoing relationship with a financial adviser.

[4]Aegon, 2021

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Sudden Wealth Syndrome: dealing with a financial windfall

If you received a large windfall suddenly or unexpectedly, you'd likely expect to feel happy and excited for the opportunities it presents. Whether you're a successful entrepreneur, perhaps selling your business or inheriting, sudden wealth can feel overwhelming.

Far from being a happy event for some, coming into a large sum of money can prove a massive emotional shock. In fact, it can even result in a recognised psychological condition called 'Sudden Wealth Syndrome'. The symptoms of this syndrome will vary from person to person, but can include feeling isolated from friends and family, guilty about the good fortune, uncertain about the future, or afraid of losing new-found financial stability.

The process of adapting to one's new financial status can lead to poor mental health and thus self-destructive behaviour, for example excessive spending or risky investments.

The link between mental health and money issues

It is well known that our mental state has a significant impact on how we handle our money. In fact, nearly half (46%) of all people with problem debt also have a mental health issue[5]. Unfortunately, stories about people who won millions of pounds in the lottery before losing it all, or even getting into debt, are all too common.

Avoiding the negative impacts of sudden wealth

While we can't always plan for it, or even avoid some of the negative feelings associated with coming into money, there are things we can do to keep our finances safe.

- Don't make any hasty decisions – put your windfall into an easy-access savings account(s) (within Financial Services Compensation Scheme limits), where it can accrue interest, until you have decided what to do with it
- Keep it on the down low – Sudden Wealth Syndrome can cause paranoia and anxiety that people only like you because you have money. Keeping things discreet will help alleviate these feelings and help with clear decision-making
- Take professional advice – spending or investing large sums of money without advice can be disastrous for your finances. Investment and tax planning advice are crucial. We're on hand to help you make wise decisions that will ensure your new-found wealth works hard for you and your family.

[5] Money and Mental Health Policy Institution, 2019

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'Noise' blocking – good for your portfolio

It's easy to feel bombarded by the constant cycle of negative news headlines or 'noise', which can add to your anxiety about how your investments are doing and uncertainty as to whether your investment strategy is on the right course. It's important to try and block out this noise which could influence you to make hasty or erratic investment decisions.

Set and revisit your goals

Keeping a record of your reasons for investing can help temper any inclination to hastily change your plans. Revisiting your initial decisions allows you to assess whether your long-term priorities remain the same.

Avoid continuous monitoring

Our mobile phones allow us to keep completely up to date, which is obviously important for things like keeping in touch with family, but when it comes to investing, it's best to avoid the temptation to set up alert notifications for funds or companies that you are invested in. Warren Buffett had this advice in 2016 after a period of extreme market volatility saying, *"Don't watch the market closely"*; advice that still rings true today.

Time in the market

Shutting out the noise to concentrate on the long term, gives your investments a greater chance of yielding positive returns and benefiting from compounding, although there are obviously no guarantees.

IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.