S&S Tait Financial Services

PENSION & INVESTMENT NEWSLETTER

S&S TAIT FINANCIAL SERVICES

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Investment Update

Inflation rises, along with commodity prices

The combined economic effects of stimulus measures, inflation and increased spending all contributed to an eventful month.

In May, vaccine rollouts gathered pace and pandemic-based restrictions began to lift in many countries. However, a new wave of cases in India raised concerns worldwide.Despite reports that the UK economy shrank in the first quarter compared with the previous three months, the level of employment increased, although it remains below pre-pandemic levels. Inflation doubled to 1.5% in April, and the next stage of reopening the country took place in May, with indoor dining allowed and air travel to a 'green list' of countries.America saw its GDP grow by 1.6% in the first quarter, bringing it back almost to where it was before the coronavirus struck. Household spending on imported goods from China especially soared – perhaps as a result of stimulus checks and the reopening of services following the vaccine rollout implemented by the new Biden administration.

Inflation is picking up

With increased spending came the news that the US inflation rate soared to 4.2% in April, which is higher than expected, and cause for concern around supply, with bottlenecks pushing up costs for manufacturers and consumer prices. The stimulus checks are thought to account for some of the rise, and experts also believe a boom in consumer demand is behind it too.

The Federal Reserve's position is that inflationary pressures are temporary, and policymakers believe it will fall back down towards the end of the year. It's not seen as something that will force central banks to increase interest rates any time soon.

Commodity prices are rising

Commodity prices in May rose, with the price of iron ore and copper reaching record highs. Copper – seen as a bellwether for the global economy – rose to over $10,000 a tonne, surpassing the previous peak set in 2011 (during a commodities boom.) Demand for copper comes from China and the green transition in rich countries: it's used in a range of industries, from electric vehicles to wind turbines and solar panels.

'Dr Copper' is closely watched in markets because of its ability to diagnose important shifts in the world economy. Plans for fiscal stimulus in America and Europe lean towards the 'greening' of economies, favour copper demand. As a pliable, cost-effective conductor of heat and electricity, copper is a vital input to green tech.

There is concern that a green energy bubble could form due to the large investment in the sector (like wind, solar or hydro industries.) These companies have stretched market valuations – and may not be earning as much as their share values suggest.

Bitcoin in freefall following Musk snub

The walk-back from Elon Musk in his support of Bitcoin, underlined concerns around the feasibility of cryptocurrencies as a stable investment. Musk – previously an outspoken supporter – announced his company Tesla would not be accepting Bitcoin as payment for its vehicles.

His retraction followed news of the environmental effects from the electricity used to mine the currency. The result was a huge drop in the value of Bitcoin (and other digital currencies) – which continued its plummet days after the announcement.

Time to consolidate your pensions?

Employer pensions can accumulate as we change jobs, and it's easy to lose track of how much each one contains. We explore what you need to know if you're thinking about consolidating your pensions.

When you leave a job, it's easy to forget about the workplace pension you might have had there. With the average person having several jobs during their lives, along with the 2012 introduction of auto-enrolment for employer-based pensions, it's not surprising that many of us have more than one pension to our name.

Whatever the situation with your workplace pensions, the first thing to do if you're thinking about consolidation is to speak to a financial adviser. We can help you figure out the best solution for your individual needs.

Tracking down your old pensions

All pension providers are obliged to send members of their schemes annual statements to keep them updated on how much their pension contains.

The Association of British Insurers (ABI) estimates 1.6 million pension pots worth billions of pounds are forgotten about due to people just moving home. So it's vital to write to your old pension providers to let them know if your address changes.

The government is in the process of launching a dashboard where all pension providers will be able to input member details, giving customers the ability to see their pensions in one place. But the process will take some years for all providers to supply their data.

Consolidating your pensions

As to whether you should consolidate your pensions into one pot, the first step should be to check the small print. If you have an older pension (around 20 years or older), you could lose some of its benefits if you transfer and be left with steep exit fees taken out of your pension amount.

Unlike older pension schemes, the newer 'defined contribution' pensions are more common and less likely to be affected by exit penalties if you want to transfer them into one place. The funds are invested, which makes consolidation an attractive option.

It's worth noting that if you're still paying into a defined contribution scheme and want to withdraw from it, the amount you can pay in and claim tax relief on could reduce.

On average, management fees for workplace pensions are around 1%. Newer pensions could benefit from tax benefits that older ones don't come with, so it's always worth checking each policy individually and get some advice from a financial adviser.

Leaving older pensions where they are

Along with exit fees and tax privileges, pre-2006 pensions (that were not affected by tax changes established in 2006) could have benefits like guaranteed annuity rates (promising a guaranteed income after retirement), which could be lost if transferred to another pension pot.

Final salary scheme pensions are probably best where they are, too, due to the nature of their payouts when you retire (based on what you earn at retirement.)

Some people opt to create a self-invested personal pension (SIPP), which lets them choose where their pension money is invested. This is beneficial to those who want to put their money into sustainable funds and make ethical investment choices.

OW3371 Exp. 24/05/22

2021 Outlook
The healing process

Following a particularly challenging year for investing, we've identified five themes we'll be watching closely throughout 2021.

The coronavirus pandemic made conditions particularly challenging for investors throughout 2020. After a year when everything seemed to change, what's likely to drive the global economy and financial markets in 2021?

These are the five themes we believe will influence our investment decisions the most as we navigate the evolving environment..

1. The world economy is in recovery mode.

We believe the pandemic will recede this year and the global economy will heal gradually. To help understand how industry sectors are likely to perform, we can divide them into three segments that:

— benefited from the lockdowns;

— suffered and are vaccine dependent; or

— were only partially impacted but sensitive to the policy response.

From a geographical perspective, some regions have contained the spread of the virus more effectively than others and are bouncing back more rapidly. Many Asian countries have avoided prolonged lockdowns. With the recovery heading in the right direction, we're confident about the outlook for company profits and stock market returns.

2. Inflation is absent but there are risks.

We expect inflation to pick up in 2020 but not dramatically. The pandemic has forced unemployment higher and created spare capacity in the economy. those who have saved most during the pandemic are more likely to reduce debt or top up their pensions than spend.

We do not expect the tide to meaningfully turn for the assets that have benefited from low inflation – notably government bonds and growth companies. With yields already at record lows, new buyers of bonds receive only a small income and the potential for capital gains appears slim. Similarly, in equity markets, we believe better investment opportunities lie outside growth companies.

3. Globalisation has become more regional.

Although the health crisis has challenged globalisation, there have been some developments in regional integration. For example, Australia, New Zealand and 13 Asian countries, including China, signed the Regional Comprehensive Economic Partnership in 2020. In the US, Joe Biden's economic team has indicated it wants to engage with the rest of the world in a more cooperative way.

From an investment perspective, we believe Asian emerging markets are best positioned to prosper in this environment. Many are increasingly self-reliant, moving away from exporting goods to developed markets. They offer a rich source of successful businesses across a range of sectors, from luxury goods to innovative technology and financial services companies.

4. Tech firms face regulatory challenges.

The companies whose fortunes have been most obviously lifted by the pandemic conduct their business over the internet. While they have the potential to keep growing their earnings by entering new markets and launching innovative products and services, policy and regulation can have a significant impact on their business models.

Another issue for the large firms is market saturation and whether they have enough room to continue growing in order to justify their valuations and the potential for further share price gains. However, we continue to believe the technology sector provides opportunities to invest in companies with disruptive business models that are revolutionising their industries, and addressing changing consumer needs.

5. Building back better

The pandemic has put environmental concerns and social inequalities in the spotlight, and policymakers have responded by declaring the recovery can improve the world by "building back better". For example, the EU has earmarked around a third of its €750 billion recovery fund to fighting climate change. Other regions have made similar commitments.

There are lots of ways we can gain exposure to companies that have the potential to benefit from government spending packages and policies designed to support a sustainable recovery. Although we don't select the investment managers in our portfolios based on their ESG credentials, we do expect that they will integrate these risks and rewards into their processes.

If you have any question about what these themes might mean for you please get in touch.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Past performance is not a reliable indicator of future performance and should not be relied upon

OW3217 Exp. 09/03/2022

Want to avoid retirement remorse?

Most people have a lot of different financial commitments and life can feel a bit like a financial juggling act. It can seem like saving in to a pension is just putting money away for the long-distant future – but putting your pension at the forefront of your financial goals makes good sense.

The earlier you start saving into a pension, the more time your investment has to grow. People are living longer, meaning that your retirement could span multiple decades – and therefore cost you more. So, what can you do to avoid retirement remorse later in life?

Don't fall into pension apathy

It's all too easy to put your pension firmly at the back of your mind while you focus on the now. But drifting into pension apathy and failing to plan ahead could make a substantial difference to your retirement income.

Biting the bullet, sitting down with a financial adviser and coming up with a robust, long-term plan for your pension at an early stage is one of the best investments you can make for your future.

Never too early

In an ideal world, you should start thinking about your pension as soon as you step into the workplace. This will allow you to take advantage of workplace pension schemes and employer contributions, as well as tax relief on all contributions at the highest rate of Income Tax you pay (subject to annual and lifetime allowances).

Don't rely solely on the State Pension

The full new **State Pension is £175.20 per week,** but government statistics show that the **average retirement income was £320 per week** (after housing costs) in 2018-19, or around **£16,640 per year**. This means that retirees are increasingly having to use private pensions, both workplace and personal, to bridge the gap.

A survey of Which? members in April 2020 suggested that individuals were spending **£19,000 per year to enjoy a comfortable retirement and £30,000 per year for a luxurious retirement,** couples were spending **£25,000 per year to enjoy a comfortable retirement and £40,000 per year for a luxurious retirement** – meaning there is still a shortfall between the average retirementincome and what is needed to maintain the lifestyle to which you're accustomed once you stop working.

No regrets

Don't leave yourself with a shortfall in retirement. You've worked hard and will want to live out your retirement years in comfort! That's where we can help. Come to us and we'll assist you in drawing up a long-term plan for your pension, so you can enjoy the retirement you deserve.

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OW2930 Exp. 31/08/2021

How inflation eats into your returns

Food price comparison

	1989	2019
White sliced loaf	*49p*	*£1.09*
Chicken (fresh / per kg)	*£1.89*	*£2.77*
Milk (per pint)	*28p*	*44p*
Oranges (each)	*17p*	*38p*
Draught lager (per pint)	*£1.06*	*£3.69*

The value of your investments can fall as well as rise, and you could get back less than you invest.

Understanding inflation and its impact on your portfolio is important because rising prices can reduce the value of the money you get back from your investments.

What is inflation?

Inflation is a term used to describe a rise in prices. In the UK, it is measured by the Consumer Prices Index including owner-occupiers' housing costs (CPIH), the Retail Prices Index (RPI) and the Consumer

Price Index (CPI). CPI the most commonly quoted measurement tracks the changes in prices of several hundred household goods and services including food, clothing and recreation. The Office for National Statistics publishes CPI figures on a monthly, quarterly and annual basis.

Prices increase for a variety of reasons, such as a rise in the cost of the raw materials used to manufacture goods, or tax cuts which encourage consumers to spend.

In the UK, inflation has drifted above the Bank of England's (BoE) target of 2% since the Brexit referendum as political uncertainty has caused sterling to weaken against other major currencies. Weaker sterling means goods imported from outside the UK become more expensive.

Most other major central banks set a similar target because a healthy level of price rises reflects a strong economy. If inflation races ahead for any reason, the banks can use interest rates to get it back under control.

Why does inflation matter to investors?

Inflation reduces what is known as your purchasing power. In short, when prices rise, you can buy less with your money. This effect does not just impact your day-to-day spending though, it also eats into the returns generated by your investments.

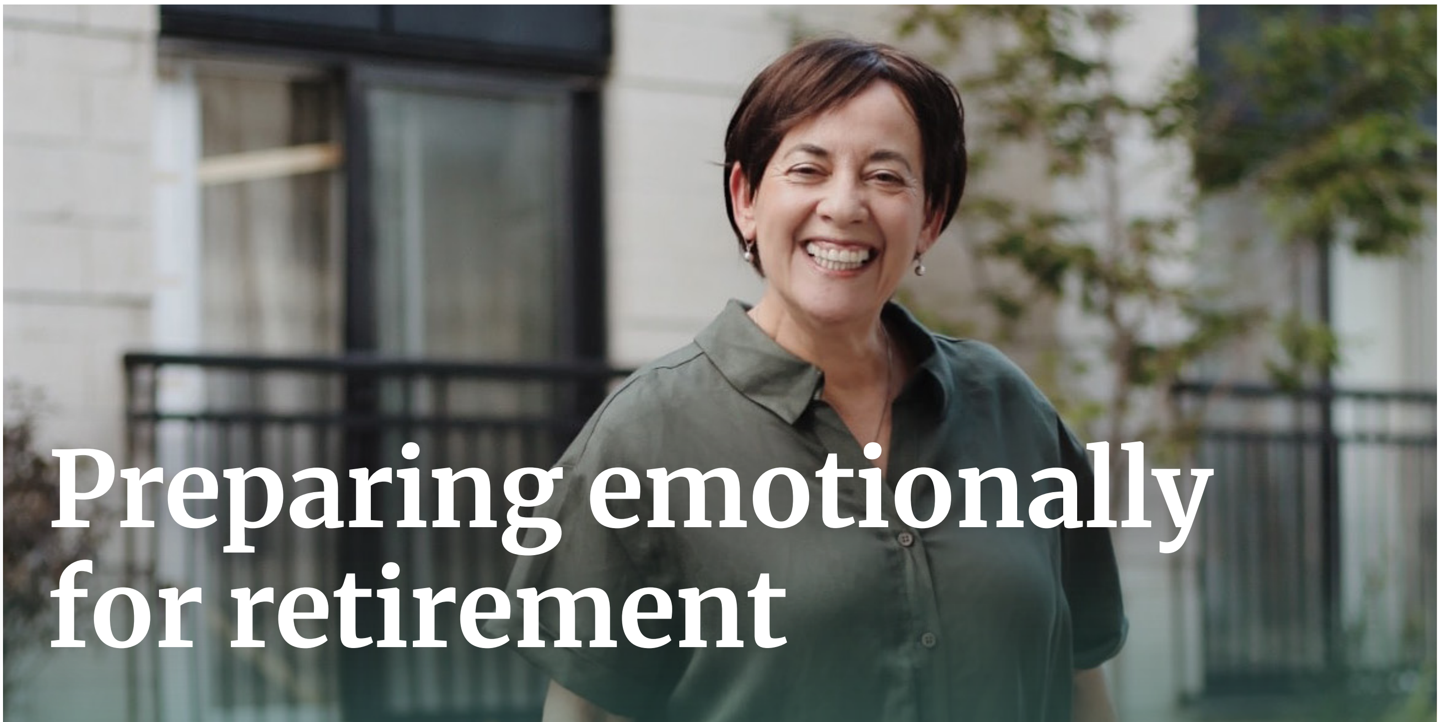
Say your portfolio increased in value by 5% in a year. This is your nominal rate of return. However, prices rose by 2% during that time, consistent with the BoE's target. To determine your real rate of return, you need to subtract the inflation rate (2%) from your nominal return (5%). In this case, the value of your portfolio increased in real terms by 3%.

Inflation proofing your portfolio

An investment portfolio should ideally be designed to deliver returns that beat inflation over the long term (five to ten years), even if it does not achieve this aim consistently throughout the whole investment period.

Bonds play an important role in the diversification of risk in your portfolio, but they may underperform when prices rise because payments become worth less. Fixed interest payments received by bond investors stay the same regardless of inflation, while equity investors earn a variable return which they expect, to some degree, to reflect changes in inflation. Alternative asset classes such as commercial property and commodities might also benefit from rising prices. Conversely, with interest rates at record lows since the 2008 financial crisis, holding cash will generate negative returns.

OW2279 Exp. 14/09/2021



Preparing emotionally for retirement

You've retired from work, you've waved a cheerful goodbye to your colleagues and you're ready for the rest and relaxation you so rightly deserve. It's exciting! For a couple of weeks. Then the doubt sets in.

What will you do with your life, you might find yourself asking? How will you fill the long daytime hours? How will you manage without the comfort of your routine? Where will you find your purpose, if not from work?

Planning – it's not just financial

Whenever we talk about retirement, it's all about the pension. If you have enough in your pension pot when you retire, you're all set, right?

Many retirees simply aren't prepared for how significantly their life will change, and many, while not missing work per se, will certainly miss the sense of purpose it offered. And, with life expectancy on the rise, it's daunting to contemplate the next 20 to 30 years without any of the structure around which you're used to organising your life.

'Reinvent' yourself

A European study funded by the Erasmus program argues that we should start preparing for retirement as early as 50. Suddenly stopping work after spending a lifetime focused on your career, it argues, can be the catalyst for depression and other mental health issues. That's why we need to 'reinvent' ourselves in our 50s by discovering new passions and interests, improving our mental and physical health, and generally forging a life for ourselves outside of work in the run-up to retirement.

So, what steps can you take to prepare for a happy retirement?

Happy, healthy, whole

Retired or not, you'll still want and need similar things in life: a sense of purpose, social interaction and activities that interest and stimulate you. With this in mind, here are our tips for preparing for a fulfilling retirement:

Wind down in stages – rather than going from full-time to retired overnight, why not try reducing your hours first, giving you the fulfilment of work combined with the free time to pursue other interests?

Exercise your body – and your mind – experts have long extolled the virtues of exercise for our physical and mental health. Getting into the habit now could really help your emotional state when you retire.

Be a social butterfly – in addition to solitary hobbies and interests, joining groups and clubs can help you develop social networks outside of the workplace.

Get a furry friend – as well as keeping you company indoors, a pet (such as a dog) will give you an incentive to get outside in the fresh air.

Don't neglect your pension – while preparing emotionally is a big part of retirement, the money still has to be there to allow you to live life to the fullest.

Would equity release be right for you? A way of supplementing your retirement income using the value tied up in your home, although not right for everyone, we can help you explore your options.

We do the finances, you do the rest

That's why we're here! We can help you sort out the financial stuff to provide you with the resources to spend your retirement free from money worries, so you can concentrate on enjoying your later years. Why not give us a call?

You will need to take legal advice before releasing equity from your home as Lifetime Mortgages and Home Reversion plans are not right for everyone. This is a referral service.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

OW3038 Exp. 02/12/2021

Why it makes sense to spread your investments

Investing in a diversified portfolio is one of the best ways to grow your money over the long term, while making sure you're not concentrated in too much risk.

You've probably heard about the benefits of diversification when investing. The performance of a portfolio comprising different assets from around the world tends to be smoother over the long term than one that's concentrated in a particular market or geographical region. It's because the holdings don't usually correlate with each other, which provides balance.

For example, when equity markets are falling, the price of government bonds typically goes up. This approach lowers overall risk because it dampens the impact of events in the global economy that affect financial markets. A diversified portfolio is also your best defence against a crisis because it's rare that all the investments would fall substantially after a single event – like a sharp recession, an unexpected election result or a global pandemic.

Rotating into better days ahead

It's a good idea to diversify exposure within each asset class too in order to spread risk. Industry sectors and geographical regions tend to perform at different speeds as global economic conditions change. For example, stock markets plunged in value at the start of the coronavirus pandemic in March and April last year but then recovered throughout the rest of the year.

Over the summer this recovery was driven by companies whose fortunes were lifted by the lockdowns. Most of them conduct all, or a big part, of their business over the internet and provide services to the home. They include online grocery and delivery companies, sellers of online exercise equipment and video streaming services. Large technology companies were the most notable winners.

Then in November hopes that a successful vaccine could be deployed to slow the spread of coronavirus in as little as a few months triggered a powerful rotation into industries that are set to benefit most from the economic recovery. They included airlines along with energy, finance, real estate and retail.

Investing actively

In order to manage investment risk and gain exposure to the most attractive opportunities it's necessary to continuously adapt to the evolving environment through an active approach. Sometimes it's not the most obvious stocks that outperform, and it takes an experienced investor to spot the trends.

For example, when Pfizer announced successful vaccine trial results, its share price barely moved. Its revenues are driven by many other underlying issues and not one single drug – despite the significance. Yet the news was market moving for IAG, which owns a number of airline brands, including British Airways. Its share price rallied as investors looked ahead to an upturn in passenger numbers.

The fund managers behind the Omnis multi-asset portfolios can differentiate between firms like Pfizer and IAG. In periods of market stress, they allocate capital to companies that are likely to generate above-market returns. We choose active managers with investment processes and philosophies that we believe give them an edge in identifying these businesses.

With cash savings rates still negligible and unlikely to rise any time soon, investing is the only way to preserve the spending power of your money against the impact of inflation. We're confident about the year ahead and believe there will be plenty of attractive investment opportunities as the economy heals, particularly in trends that are driving the economy, such as new technologies and clean energy, as well as Asia's emerging markets, which have coped relatively well with the pandemic.

We can help you explore tax-efficient savings and investment options, so get in touch.

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OW3221 Exp. 09/03/2022