GEM
FINANCIAL SERVICES

SUMMER NEWSLETTER

GEM FS LTD

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.

4 The Bluestone Centre, Sunrise Way, Amesbury, Salisbury, SP4 7YR
don@gem-fs.co.uk | www.gemfsltd.co.uk | 01980 670403

Should we be concerned about rising inflation?

Most economists expect inflation to pick up over the next few months as lockdown restrictions ease and shops and restaurants reopen. But is this a cause for concern?

As lockdown measures begin to lift, financial markets are making their adjustments in anticipation of a rise in inflation, with bond yields picking up (meaning prices have fallen) and stock markets rotating from defensive sectors into cyclicals.

What is inflation?

Put simply, inflation measures the change in the prices of goods and services. If it rises then it takes more of our cash to buy things. We all experience inflation in our daily lives, from filling up our cars with fuel, buying groceries or using public transport.

In the UK, the official measure of inflation is the Consumer Prices Index. It's published by the Office for National Statistics (ONS), which monitors what people are spending their money on, using a basket of everyday goods and services.

The ONS adjusts the basket from time to time to reflect our changing spending habits. During lockdown, there was a shift with products like hand sanitiser and hand wipes being added, and items like white chocolate and ground coffee dropping off the list.

Inflation is all an illusion… or is it?

It's easy to ignore the impact of inflation on your finances. Most people's spending habits this month compared with the same time a year ago would probably stick to the same patterns – regardless of inflation at the time – because the differences seem small and therefore wouldn't affect the way they spend.

If you're trying to save money though, it's worth remembering that with interest rates currently lower than the rate of inflation, the real value of any cash savings is falling. In other words, the cost of living is increasing at a faster rate than your savings are growing, which means the spending power of your money is actually falling.

How will inflation affect investments?

Many people in the UK are preparing to spend the cash they've saved over the past year when the lockdown ends and shops, restaurants and entertainment venues reopen. Activity is likely to return to pre-pandemic levels and the expectation is that inflation is likely to pick up. Some economists are worried about inflationary pressures. In addition to this is the effect of government stimulus packages on the economy, which would provide another tailwind.

However, experts believe it's likely to be a short-lived phase and should not pose a longer-term challenge to fixed income or equity markets. The Bank of England does foresee inflation rising towards the 2% mark, but believes it will be a temporary phenomenon. Continuing deflationary forces like ageing demographics, technological innovation and global supply chains cast doubt over predictions of a new era of inflation.

Ultimately if you want to beat inflation in terms of finding some good returns on your savings, investing is the best option at the moment – due to cash savings rates being at such low levels.

One of the best ways to ensure your investments are given the strongest opportunity to navigate the effects of inflation on financial markets is through a global, multi-asset portfolio that's actively managed by a professional team of investors. Speak to a financial adviser to find out more.

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.

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

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

Jargon and lingo – talking about mortgages

From agreement in principle and loan-to-value to freehold and leasehold, we've compiled a list of terms you're likely to come across when buying a property and what they actually mean.

Buying a property can be a complicated process, and even more confusing when you're confronted with various terms you've not come across before. To help you make sense of it all, we've listed some key definitions you'll need to know.

This list should give you a good head start when it comes to understanding the jargon around mortgages. To help you take the stress out of buying a property, speak to a financial adviser about how they can help you find the most suitable mortgage and guide you through the process.

Agreement in principle	A document from a mortgage lender with an estimate of how much money you may be able to borrow. You can use this to prove to a seller that you can afford to buy their property.
Annual percentage rate (APR)	The overall cost of a mortgage, including the interest and fees. It assumes you have the mortgage for the whole term.
Arrangement fee	A set-up fee for your mortgage.
Base rate	The interest rate the Bank of England charges other banks and lenders when they borrow money.
Buildings insurance	Covers you for damage to the structure of your home – you'll need to have a policy in place when you take out a mortgage.
Capital	The amount of money you borrow to buy a property.
Conveyancing	The legal process you go through when you buy or sell a property done by a licensed conveyancer or solicitor.
Deposit	The amount you need to put down in cash towards the cost of a property.
Equity	The amount of the property that you own outright – your deposit as well as the capital you've paid off on your mortgage.
Fixed-rate mortgage	The interest rate on the mortgage stays the same for the initial period of the deal. Your rate won't change with the Bank of England base rate during this time.
Flexible mortgage	Allows you to underpay, overpay or take a payment holiday from your mortgage – they are usually more expensive than conventional mortgages.
Freehold	You own the building and the land it stands on.
Gazumping	When an offer has been accepted on a property but a different buyer makes a higher offer, which the seller accepts.
Guarantor	A third party who agrees to meet the monthly mortgage repayments if you can't.
Help-to-Buy	The government has introduced various Help to Buy schemes to make buying a home easier, including equity loans, mortgage guarantees, ISAs and specific schemes for Scotland and Wales.
Interest-only mortgage	You only pay the interest on your mortgage each month without repaying the capital.
Joint mortgage	A mortgage taken out by two or more people.
Land Registry	The official body responsible for maintaining details of property ownership.
Leasehold	You own the building but not the land it stands on, and only for a set period.
Loan-to-value	The size of your mortgage as a percentage of the property value.
Porting	Allows you to transfer your borrowing from one property to another if you move, without paying arrangement fees.
Repayment mortgage	You pay off interest and part of your capital each month.
Stamp duty	You'll need to pay stamp duty land tax when you buy a property over a certain price.
Standard variable rate (SVR)	The default interest rate your lender will charge after your initial mortgage period ends.
Tracker mortgage	The interest rate on your mortgage tracks the Bank of England base rate at a set margin above or below it.
Valuation survey	Lenders will carry one of these out to check whether the property is worth around the amount you're paying for it.

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

OW3277 Exp. 06/04/2021

The world is changing – so should your insurance

The world is changing rapidly in a way that nobody could ever have expected, meaning your personal and financial circumstances are likely to have changed. It is important to regularly review all aspects of your finances and that includes reviewing your protection insurance, to make sure your policy provides adequate cover for your changing needs.

Underinsured

If you don't regularly review and update your policy, any pay-out you do receive from your claim may not be enough to cover you and your family's needs if you were to die or if you are unable to work due to illness.

Say you took out a life insurance policy covering you for a certain amount. After several years, you may have children, resulting in a move to a larger house. If you take a larger mortgage; your monthly outgoings would increase, and you would have bigger bills to pay. Therefore, the lump sum paid out to your family upon your death would no longer be sufficient to sustain their lifestyle and might leave them facing financial hardship.

New policies offer better protection

Like any industry, the insurance industry has evolved over time. Modern policies can offer you better protection and more extensive cover.

When comparing a critical illness policy sold in 2007 with one sold in 2017, the more modern policy may have better claims wording, provision for part-payment and other advantages.

If you have simply been paying your premiums on the same policy for years, it is likely that, as well as facing the risk of being underinsured, you also won't be benefiting from the kind of comprehensive cover offered by today's policies.

Let us protect you

With so many different types of protection insurance on the market, it's not surprising that many people just stick with the cover they have. It may not be the best cover for them. We can assist you in finding the very best policies for your circumstances, so you have the peace of mind that you, and your family, will be protected should the worst happen.

Please note: Older policies may cover illnesses which modern policies do not. Premiums may be cheaper due to the age of the policy. Certain cover may be excluded on a new policy due to pre-existing conditions.

Always get professional advice when reviewing your insurance policies.

As with all insurance policies, conditions and exclusions will apply

OW2872 Exp. 06/08/2021

Exchanging contracts? Get insured first

Purchasing a property can be a busy, stressful time and it can seem like there are a million things to remember. Some things however, are more important to remember than others – for example, getting the right insurance in place at the right time.

Many people believe that they only need to take out buildings insurance once they move into their new home. However, this is not the case. It can come as a surprise to find out that, in most cases, the responsibility for insuring the property becomes the buyer's as soon as contracts are exchanged.

Avoid stress, get prepared

Exchange
Once contracts have been exchanged, you're committed to the purchase and can't back out without forfeiting your deposit.

Insure
If the property is damaged or destroyed between exchange and completion, you're still contractually bound to complete the purchase and will immediately face hefty costs to repair your brand new home.

Relax
To avoid stress and guarantee peace of mind, researching your options in advance and taking out insurance on the day contracts are exchanged is very important.

Getting the right policy

Buildings insurance covers the cost of repairing or rebuilding your property in the event of damage. It covers the structure of the property, as well as outbuildings such as garages and sheds and fences, and external items such as pipes, cables and drains. It doesn't cover possessions and furniture inside your home – you will need a separate contents insurance policy for this.

How much you pay for buildings insurance will depend on the rebuild value of your new home. This should not be confused with the property's current asking price. It is how much it would cost to completely rebuild your home from scratch. There are tools available to help you calculate the rebuild value of your home, including a special calculator on the Association of British Insurers' website.

Here to help

We can help you find he most suitable buildings insurance policy for your circumstances, giving you one less thing to worry about. We can also advise on any additional cover you may need and get everything in place by the time you exchange.

As with all insurance policies, conditions and exclusions will apply

How to plan for inheritance tax

Following the news that thousands more people are expected to pay the standard 40% inheritance tax this year because of the effects of the pandemic, we explore some of the ways to navigate the complexities of inheritance tax.

The complex laws around inheritance tax (IHT) caught many people off guard during the Covid-19 pandemic.

Along with the often-sudden loss of a loved one came the issues arising from IHT on gifts passed down to children and grandchildren.

This tax year marks the latest in a series where the number of people being charged IHT on gifts has increased.

Since 2009, beneficiaries have paid 40% IHT on estates worth more than £325,000.

Inheritance tax facts

Following the Budget in March, it was announced that thresholds will remain the same for IHT until 2026:

For single people, the threshold is **£325,000**.

For those who are married or in a civil partnership, the threshold is **£650,000**.

Couples can also pass on their assets (like an owned home) worth up to **£1 million** in total if they leave it to children or grandchildren.

Gift your way to less inheritance tax

There are ways to avoid passing on a large IHT bill to your family, whether it's through gifting or charitable donations:

— You can give away assets or cash worth up to £3,000 a year (known as the annual exemption) with no IHT to pay regardless of the total value of your estate when you die.

— You can give as many gifts of up to £250 to as many people as you want each year – although not to anyone who has already received a gift of your whole £3,000 annual exemption. To make use of this exemption, it's important to keep accurate records.

— If you are married or in a civil partnership, you can pass on your entire estate to your surviving spouse, tax free, when you pass away. Things could become more complicated, however, if your spouse was born in a different country.

— If you give a gift – of any amount – and live for a further seven years after the gift has been given, the beneficiaries will not have to pay any IHT if you pass away after that seven-year period.

— Leaving money to a charity means it's free of IHT and could cut the tax rate on the remaining amount in your estate.

Transferring to a trust or pension

Setting up a trust to transfer some of your estate into for the benefit of your grandchildren is another way to reduce the IHT liability on your assets. However, the trustees could still encounter some income or capital gains tax.

While it may not be the most obvious choice, setting up a pension for your children or grandchildren could be a tax-efficient option. The fund will transfer to them when they turn 18 but they won't be able to access the money until they're much older.

As with anything tax-related, the rules are especially complex when it comes to where your inheritance goes and how much your beneficiaries will end up receiving. That's why it's so important to speak with your financial adviser to review all your options and find the most efficient ways to pass on your wealth.

To learn more about how to make the most of your money this tax year and for more information about inheritance tax and your tax-free allowances, speak to your financial adviser.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen

OW3370 Exp. 05/04/22