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News Snapshot
SUMMER 2020

INVESTMENTS


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Holding your nerve with your investments

Hard as it feels, now is the time to try and stay calm.

There is no disputing the impact of the Covid-19 pandemic. Despite previous coronavirus outbreaks in Asia, such as SARS in 2002, on this occasion it's different. Time now seems to be divided into 'before and after': the old normal and the new socially distanced reality we are now coming to terms with. These two eras are clearly visible in the global stock markets, most of which fell sharply in March as the virus spread globally, closely followed by lockdowns and economic contraction.

The investment scene has certainly altered, at least for now. There has been increased volatility in the values of investments while businesses have reacted to the new environment in many ways, the most obvious being to reduce dividend payments.

> *The investor who stayed the course did suffer in the short term but benefited in the long term.*

However, it is worth trying to take a longer-term view. Think back – if you can – to previous crises, such as the banking crash of 2007/08, the 9/11 terrorist attacks, and even the stock market crash of 1987. At the time, each of those events felt momentous and a break in history. Now, with the benefit of hindsight, these may even appear as little more than dips on a long-term chart. The investor who stayed the course did suffer in the short term but benefited in the long term. The investor who panicked and sold up may have chosen the worst point to do so, and then faced the difficult decision of when to reinvest.

✣ *The value of your investments, and the income from them, can go down as well as up and you may not get back the full amount you invested.*

Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

TAX

Tax rises on the way?

The fallout from Covid-19 has created a large bill for the Government...which ultimately means the taxpayer.

When the Chancellor launched the Self-Employed Income Support Scheme, he commented that "it is now much harder to justify the inconsistent contributions between people of different employment statuses". The comment was widely seen as a hint that the self-employed could soon face higher national insurance contributions (NICs), bringing the amount they pay closer to the level paid by employees.

A rise in the NICs rate would be unlikely to be the only tax increase. Shortly after Rishi Sunak's announcement, the Office for Budget Responsibility (OBR) revealed an estimate that Covid-19 would lead to the Government borrowing £273 billion in the current financial year. That's almost five times the figure it had projected at the time of the spring Budget. The Coronavirus Job Retention Scheme has been extended by four months since the OBR's April calculations, so its next borrowing estimate could be over £350 billion.

The Government won the December election with a manifesto commitment that it would "not raise the rate of income tax, VAT or National Insurance". If it keeps to that pledge, then it could be forced to look to areas such as pension tax relief for extra revenue.

Forewarned is forearmed.

✣ *The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.*


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ESTATE PLANNNG

It will happen to you...

The Covid-19 pandemic has provided an awkward reminder for many people of things they prefer to ignore.

Key workers have become much more prominent during the coronavirus crisis. Surprisingly – until you stop to think about it – this list also included solicitors "acting in connection with the execution of wills".

Some firms of solicitors saw double the normal number of enquiries about will writing in the second half of March, just as the lockdown started, according to the Law Society. However, difficulties with last minute solutions are a reminder of why it is much better to prepare in advance. For example, in England and Wales, the Wills Act 1837 requires the signature of the person making the will to be witnessed by two people who are *physically* present at the signing – a complication in times of social distancing. Northern Ireland follows suit, but in Scotland a single witness and video witnessing are allowed.

Over half of the British adult population currently do not have a will. If you are in that majority, then the rules of intestacy will determine how your estate will be distributed on your death. These vary between the four regions of the UK, but do not automatically pass everything to a surviving spouse or civil partner where there are children, nor do they make any provision for unmarried partners.

Having a will lets you decide who receives what from your estate and can also control when and how benefits are distributed if you use a trust. For example, you may not want your children to inherit outright at the age of 18. Ideally your will should form the cornerstone of your estate planning.

Even if you do have a will, don't file and forget it. A will, like any other piece of financial planning, needs to be reviewed regularly, to reflect both changes in your circumstances and to tax rules.

✢ *The Financial Conduct Authority does not regulate will writing, trusts and some forms of estate planning*

The Financial Conduct Authority does not regulate tax advice, and tax laws can change.

PENSION

Time to review your drawdown plans?

Many people may need to reduce the income they are taking from their drawdown pension funds in light of the effect of the Covid-19 crisis.

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The dramatic initial falls in equity markets were followed by some recovery and were by no means fully reflected in portfolios that were diversified into bonds and other assets. But there may, of course, be further fluctuations ahead.

For those accumulating savings and contributing regularly to a pension, the general guidance has been to continue contributions and wait for recovery in the longer term. However, if you are taking regular withdrawals from your pension fund or other investments, you may need to review your pension planning.

Withdrawals from pension funds are typically derived from dividends, interest and sales of units in the funds you hold in your pension. So you benefit from the total returns of capital and income generated by your pension portfolio.

If fund values rise steadily, the combination of income and capital withdrawals should provide a steady source of income.

Investors with well diversified portfolios have seen some of their holdings decline much less than other components. So the overall impact may well be much less than some headline figures with a less serious effect on future performance. Many investors have some cash reserves set up for such circumstances. If you are in this position, you might prefer to draw now on these cash reserves and wait to make further withdrawals.

A temporary reduction in expenditure and plans for future spending may be a prudent strategy. Bear in mind that some taxes are likely to rise soon to cover the costs of the pandemic. Regardless of how you use your drawdown plan, it is essential to review the income you take from your investments on a regular basis to keep long-term plans on track.

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SAVING

National Savings hold off on rate cuts

National Savings & Investments (NS&I) has cancelled planned rate cuts on a number of its variable rate accounts, including its popular Premium Bonds, to help savers during the Covid-19 pandemic.

Initially NS&I had planned to cut the prize 'rate' on Premium bonds from 1.4% to 1.3% in May. Proposed rate cuts have also been cancelled on its Direct saver account (which will continue to pay interest at 1%), its Investment account (0.8%), and its Income bonds (1.16%).

However, NS&I has cut rates on its fixed rate products as planned. This includes its Guaranteed growth bonds, Guaranteed income bonds and Fixed interest savings certificates held by existing customers over different terms, from one to five years.

This will affect those reinvesting after a product matures. If you currently have one of these products then the rate is fixed until the end of the term.

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