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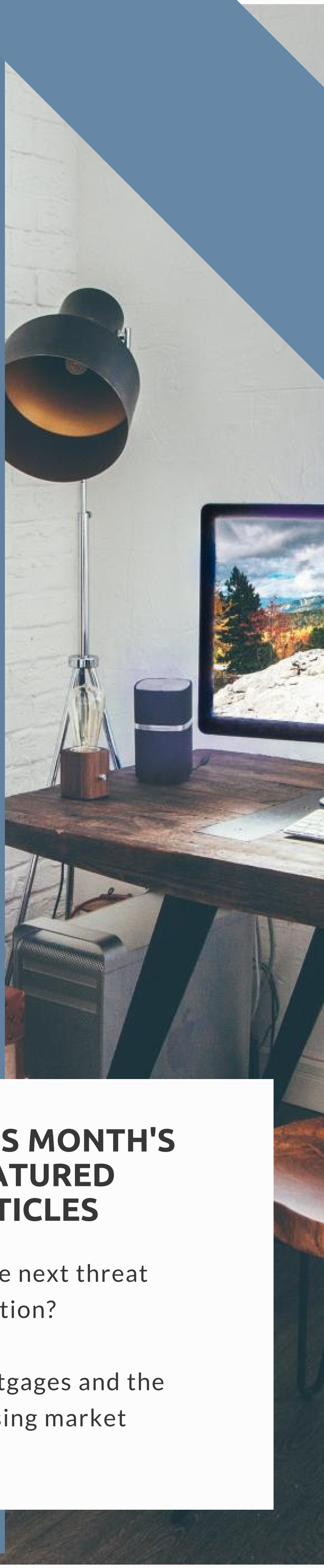
FINANCIAL FOCUS

OBJECTIVE WEALTH



Younger Generation Reliance on Inheritance

The growing size of inheritances is set to reduce social mobility for younger generations

In a recent Institute for Fiscal Studies (IFS) article, we have seen some interesting conclusions drawn on the impact of the receipt of inheritance as a growing share of National income and it, therefore, benefitting those in receipt creating more of a wealth gap. David Sturrock, one of the authors of the report states 'the increasing levels of wealth held by the older generations and the lack of income growth for the younger generations are together driving an inter-generational economic divide.' The figures show that for those born in the 1960s, inheritance represents 9% of household lifetime income, while for those born in the 1980s, inheritance rises to 16% of the household lifetime income.

The resulting economic modeling of the ONS states that savings decisions of those born in the 1980's mean they will hold 9% less wealth as they are expecting a future inheritance. This means that people are more ready to rely on inheritance for retirement.

In previous newsletters, we have dealt with succession planning and you will probably have had conversations with either Mark or I about passing on wealth to your beneficiaries, however, we are also interested in closing this savings gap. Our experience has shown us that when we all become more aware of the impact of savings, pensions and investment decisions at a younger age, it leaves us better set for the future removing such reliance on inheritance. We are working to offer a financial advice proposition that works for those at the beginning of their financial journey as much as those who are already wealthy.

We are working hard to bring technology to the fore in these offerings for our younger clients where they can see the projected outcomes of their decisions now. Information and guidance from Objective Wealth coupled with increased ownership of financial decisions will ensure that those in the next generation that do not have the luxury of an inheritance, can be financially secure.

THIS MONTH'S FEATURED ARTICLES

Is the next threat Inflation?

Inflationary concerns and the impact on our investment portfolios

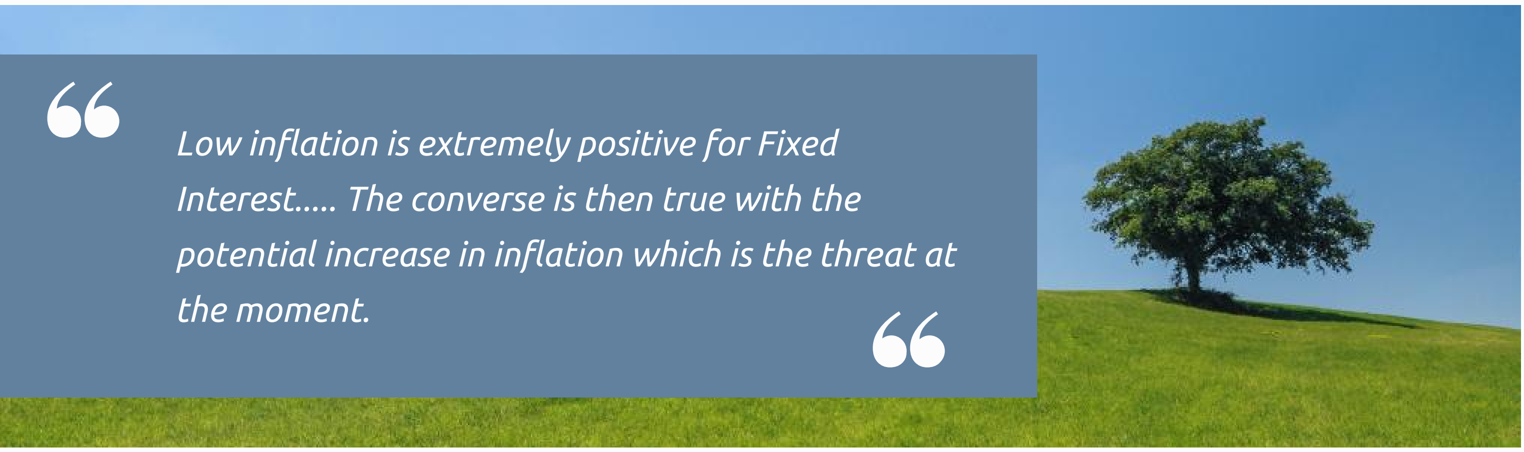
With the immediate threats to the economy associated with the reaction to the Pandemic which had a detrimental effect on the performance of equities, we are now looking towards the next potential issue - Inflation. You may have heard in recent weeks that talk of inflationary pressures has rattled some sections of the equity markets and caused some short-lived sell-offs. However, I am going to look at what inflation means to investment returns and how it represents more of a threat to the fixed interest section of your portfolios.

Inflation has remained stubbornly low over the last decade since the 2008 economic crisis for four main reasons: Firstly, the World's main central banks have targeted low inflation through monetary policy in reducing interest rates to record low levels. Secondly, technology advances have meant that employees have had increasingly less bargaining power which was the historical main driver for inflation. Thirdly, Globalisation has introduced more competition to international markets, especially with the introduction of China to the world economy. Finally, demographics have shown that an increasing share of populations have been able to work, thus more competition and again reducing the bargaining power of employees.

The threats to these factors that could raise inflation include more nationalistic economic policies following the pandemic receding Globalisation momentum. This has been exemplified in the US where the government stimulus package along with a rise in commodity process, have led to the Federal Reserve selling off government bonds.
I appreciate that all of this might not sound relevant to your finances beyond a possible rise in interest rates for Savings if the Bank of England raises interest rates (although high street banks raising rates will be restrained to say the least). The main concern in investment management and thus the effect on your portfolios is where this leaves the Fixed Interest asset class section. Low inflation is extremely positive for Fixed Interest as the Fixed Income that they pay worth more. The converse is then true with the potential increase in inflation which is a threat at the moment.

Our lowest risk portfolios have up to 60% fixed interest while our highest risk portfolios have around 17% invested in this asset class albeit in a very diversified manner. This does not represent a concern for us as the fund managers we use, Vanguard, Prudential and BlackRock have adjusted their holdings to reduce this Fixed Interest content generally. They have also focused on the areas of the Fixed Interest sector that are offering better value especially that of Government debt in the form of Gilts. It is also important to remember that it is in none of the leading World governments' strategy to let either inflation or interest rates increase too much as they will use all of the monetary apparatus they can, to keep this in check.

It is also important that we highlight the positive news in the equity markets generally at the moment where the outlook continues to remain positive especially in the UK.



> *Low inflation is extremely positive for Fixed Interest..... The converse is then true with the potential increase in inflation which is the threat at the moment.*

Mortgages and the housing market

2021 has been a very interesting year so far for the housing market so we explore some of the current themes.

There is excitement in the mortgage industry with the big news of the reintroduction of the 95% mortgage! This has opened the door to purchasing a property to many more people and particularly those trapped in the rental market. The Government's mortgage guarantee scheme has protected lenders in this market meaning the majority of the larger lenders coming back to this space in some capacity.

It has been an interesting start to the year in the property market. The very slight lull in the early months with the impending stamp duty holiday deadline followed by the effect of the announced extension to the end of June 2021. This has caused a huge upturn in demand from April onwards with house prices having the highest monthly increase of 2.1% since 2004 with the average UK house price now £258,000. Records being broken is common ground in the industry with Wednesday 7th April bringing the highest ever number of visits to Rightmove with 9.3 million using the site. I can't stress the importance of understanding your budget and the current mortgage market enough BEFORE doing your property searches. Criteria changes are still happening on a weekly basis, so your maximum affordability is as fluid as ever and in particular with income multiples and bonus/commission/overtime with some lenders relaxing their criteria back in line with post lockdown.

We offer independent, whole-of-market advice so the ability to explore every lender out there has never been so important. Please don't hesitate to get in touch at **jack@objectivewealthfinanical.com**.

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