



NEW INVESTMENT HORIZONS



Dear One and All,

We hope finds you all well. In this edition of our regular newsletter we will:

- **Update you on the way forward for the World's Economies and the likely path of Investment and Capital Markets, for the coming year and beyond.**
- **Provide you with a snapshot analysis of the current position of the various Asset Sectors that make up clients' portfolios.**
- **Highlight the positive role that investments can make in fixing the planet.**
- **Spotlight the changes in Long Term Care and what protection Financial Planning can provide.**
- **Discuss the implications of inflation on the UK economy.**
- **Give you an update on the Equity Release Lifetime Mortgage Market.**

What a year this has been! We are thankful to you, our loyal clients for sticking with your financial plans when the bottom fell out of the World Markets in March 2020. For everyone this has been a successful decision. We are grateful for our clients perseverance in adapting to working with us remotely by Zoom.

The Financial Conduct Authority does not regulate Taxation Advice, Trust Advice, Will Writing and some forms of mortgages.



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World economy what the future holds..

The outlook is (as always) mixed, however, after the near flatline of the economy in 2019/20 the direction of the World economy is up.

Reasons for Cheer

First the World Bank has forecast that the World economy will grow in 2021 by 5.60% in 2021 from a contraction of -3.50% in 2020. Growth will continue strongly in 2022 and fall back to the normal 3.00% growth rate in 2023. However this growth is likely to be uneven with the World's poorest countries growing the slowest due to the poor roll out of Covid vaccines and the rise of the Delta variant. This greater growth lead to rising profits and dividends payments by companies.

Secondly, capital expenditure by companies investing in their own businesses (known as CAPEX in the USA) is going ahead at a faster pace than at any time for the last decade. Manufacturing and basic materials companies that have been unloved by investors have seen a strong recovery. In the USA alone public companies increased CAPEX spending to \$1.021 trillion this year.

We are going through another industrial revolution with the World changing to a sustainable economy. To achieve the Paris Climate Change Agreement the Nations of the World will need to spend \$6.9 trillion a year up to 2030 to meet their commitments and obligations. This will be a huge driver of economic activity and company profits over the coming years.

Reasons for Caution

Since hitting a pandemic low in March 2020, the World's markets have soared, the S&P 500 has surged 104% and it is trading at 21 times forward earnings, this is high compared to the average since 1880 of 15.95. We can therefore expect a normal correction particularly in the USA at some point.

The second reason for caution is China, they are the World's loose cannon and their contempt for the rule of law and liberal democracies is bound to put them in conflict with

us at some point. Economically the Chinese property market is in crisis with the largest private developers Evergrande likely to go into bankruptcy. This will be bad news for foreign investors who have invested \$21 Billion into this company. If Evergrande does go into bankruptcy this may lead to contagion with further Chinese property company collapses and strain on the already fragile Chinese banking system. We wait to see with interest if this will be the end of the build at any cost policy of the Chinese.



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World Asset Allocation Review Sector Returns



UK CASH ~ Our least favoured asset class, Best rate Marcus 12month Fixed Rate 0.50% Average inflation rate 3.00% = A Guaranteed loss of 2.50%. We do not anticipate this changing anytime for next 3 years, the Bank of England may post its first ever negative interest rate in 2022.



UK FIXED INTEREST ~ For those who wish safer returns UK Government Gilts are seen as the logical choice. UK Corporate Bonds we see as higher risk for the return than International Bonds.



INTERNATIONAL FIXED INTEREST ~ Government Bonds, Corporate Bonds, Emerging Market Bonds, as companies have to pay more to the funds they need so the potential returns to investors will increase. We see Emerging Market Bonds offering the best returns for those with an average or above risk.



UK EQUITIES ~ UK Plc is unloved by Global Asset Managers, however despite the challenges the UK faces UK Equities have done remarkably well this year. It is likely that this performance will continue as overseas investors return to the UK.



USA EQUITIES ~ The US economy has been given huge stimulus by President Biden and there is more to come with the new infrastructure package. We see positive returns sustained in the years ahead.



CHINA EQUITIES ~ The Chinese property market is in crisis with the likely collapse of Evergrande one of the largest firms in this sector. Whether this will lead to wider contagion is yet to be seen, but this and the political machinations of the Chinese leadership makes us cautious.



EUROPE EQUITIES ~ Europe remains one of the best performing asset classes. Greater cohesion within the Eurozone is yet to be seen. The long term effects of BREXIT and sustainability of the Euro remains a lingering question over this sector, however they have some of the best companies in the world.



JAPAN EQUITIES ~ The 1990s was the last time that the Nikkei index breached the 30,000 level which it made in February 2021. Japan should be a part of nearly everyone's portfolio.



GLOBAL EMERGING MARKETS (GEM) ~ Have delivered the strongest returns in 2020. Those who seek investment for higher long term growth, inclusion of this sector is essential.



COMMODITIES ~ The World restarting of economic activity has caused large demand for raw materials and has increased prices. For most of our clients this sector is too volatile for us to recommend direct holdings.



PROPERTY FUNDS ~ We typically recommend International Property across the world giving strong and stable returns. This sector is likely to be hit, by the revolution in working practice seen during lockdown with people working more flexibly from home. However as a secure source of regular income it warrants inclusion in nearly all portfolios.





The Case for Green Investing

Environmentally Socially Governed (ESG) investing is a form of socially responsible investing that prioritizes financial returns alongside a company's impact on the environment, its stakeholders and the planet. Typically ESG fund managers exclude certain industries e.g. oil or tobacco and the best offer a range of alternatives which are more or less prescriptive on what assets portfolios can hold, light to dark green.

A 2019 UK Government survey found that, “despite more than half the population saying they are interested in responsible and impactful investing, stated take up and awareness of responsible ESG investments is low.” Since then the level of ESG investment has doubled and is now the one of fastest growing sectors in the investment industry.

It has been suggested that switching to ESG investing is one of the most effective changes one can make to help the planet, if that is what you want to do.

Positives for ESG Investing

90% of an investment's return comes from the Asset Allocation, this applies to ESG investing therefore a broadly asset allocated ESG Portfolio will deliver the same returns and downside protection as a non ESG portfolio.

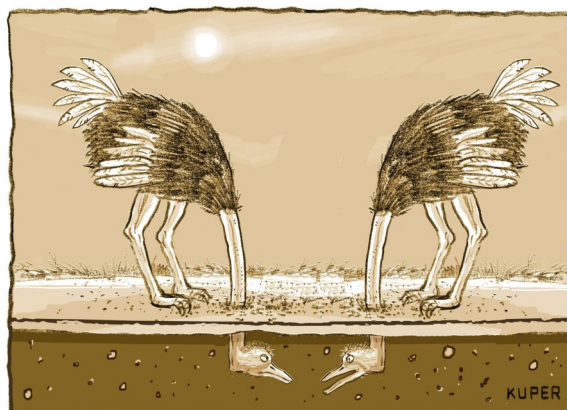
ESG invests in the industries of the future from low carbon energy producing to sustainable food production. In order to hold ESG status the companies invested normally have strong leadership a diverse board and clear company direction.

Negatives for ESG Investing

Because of the greater management and research that goes into selecting and maintaining holdings ESG investments have a reputation for being expensive and whilst this is true by holding passive investments within a portfolio costs can be kept to a minimum.

Concentration risk is clearly something that is part of ESG investing. A normal portfolio has the entire investment universe to choose from, but the moral and ethical constraints of an ESG portfolio mean that there are less assets to choose from. Therefore most ESG funds tend to be technology focused with high exposure to Microsoft, Apple and Google. However, it is a big World with more and more companies signing up for ESG accreditation every year.

Greenwashing is a phrase that has come into circulation recently whereby an assets is chosen for ESG investing when it is not suitable. A example of this is BAE which has a renewable energy division but also makes weaponry, definitely not ESG!



“Hey how are you feeling about the climate crisis?”





Long Term Care-Recent Changes

The provision of long term care in later life is a worry to many people and particularly how paying for their care will effect their legacies. The new changes announced on the September 15th 2021 are welcome but do not fix the major hit to their finances most people will face if they enter long term care.

“From October 2023, no eligible person starting adult social care will have to pay more than £86,000 for personal care over their lifetime.” Rt Hon Boris Johnson, Prime Minister

If a person's total assets are over £100,000, full fees must be paid. The maximum that a person will have to pay over their lifetime towards personal care costs will be £86,000 as a result of the new cap. It should be born in mind that certain medical care costs will still be met by the NHS although Alzheimer's disease and dementia continue not to be deemed medical conditions worthy to be funded by the NHS. The cap does not include accommodation costs or hotel costs. Now that there is at least clarity on the new rules we expect that our industry will provide insurance plans to protect against this risk to wealth. This is indeed a great improvement on the current £23,000.00 total asset cap, however it will not stop long term care being a pernicious tax on a lifetime of working and saving. The good news is that there have been no changes to the CRAG rules on policies of Life Assurance meaning that Insurance Investment Bonds continue to be outside the scope of assessment of wealth for the payment of care.

Is Current Inflation Transitory?

The UK economy is under pressure caused by BREXIT and the Pandemic which is causing inflation, currently running at 3% and is likely to rise to at least 4% by the Spring. Under their obligations The Bank of England are obligated to raise interest rates if inflation exceeds 2%.

However the Monetary Policy Committee have taken the view that the current inflation is Transitory and inflationary pressures will naturally ease in 2022 and so there is no requirement for them to raise interest rates. Structural inflation is where prices and wages rise year on year which was seen in the 1970s and 1980s when this gets out of control Hyper-inflation occurs. Fortunately, we are not in that situation however, it has been said, “Inflation is like toothpaste, once its out you can hardly get it back in”

What is concern to us is that we in the UK are facing a perfect storm of unconnected events that will exacerbate inflationary pressures leading to a severe spike in process and a return of Structural Inflation. Food and heating costs are a particular worry with food prices likely to be hiked by up to 10% in the first part of 2022.

We wait to see what actions the Bank of England will take but whatever they do it is likely to be limited and interest rates are likely to be still below 2% by the end of 2022.

There is a fair amount of current nostalgia about the simpler life in the 1970s but this is taking it too far.





The CF&IS

Wall of

Numbers



50% of all
Green power in-
vestment has been
made by computer
tech companies.

-0.10% The

largest daily fall in the value of
the LV= FGB Cautious Fund.

£179K The Average
UK Inheritance Tax Bill

£4 Billion The
amount in Business Property
Relief investments for IHT
planning

£6.1 Trillion
Values of all UK
pension funds.

43% of people
surveyed would feel
comfortable about having
the same financial
adviser that provided
advice to you and all
your close relatives

57% of people surveyed
aged 55 –75 would feel
very comfortable or
comfortable dealing with
an adviser remotely.

£40,000.00 on average better off are those who
receive Financial Advice, than their unadvised peers over a lifetime.





Lifetime Mortgage & Property News

The average age of Lifetime Mortgage first applications is 70	In 2021 £2.30 Billion was released from UK homes through Lifetime Mortgages	The maximum Lifetime Mortgage Loan to Value for a single 70 year old is 54.50%	Best Lifetime Mortgage Rate Fixed for life is 2.71%
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We are proud to be members of The Equity Release Council. The Equity Release Council is set up to promote the highest standards of advice and practice.

We see Equity Release and Lifetime Mortgages as a valuable financial planning tool in helping older clients move home, buy new property, help themselves create an income or fund care and help their children find somewhere secure to live. The quality of the products that we recommend is increasing constantly and the old difficulties with these product has been removed. That said, not borrowing money is always the recommended advice and downsizing is always the first recommendation.

The Equity Release Council has published its 2021 autumn market report, here are some of the key points taken from it.

The overall value of UK housing stock rose from £5.67 Trillion to £6.42 Trillion over the last year.

The average house price of customers purchasing Lifetime Mortgages for the first time continues to rise to record levels to £406,139 for lump sum Equity Release plans

39% of all Equity Release products allow customers to make regular interest payments.

68% of all Equity Release products allow customers to make voluntary capital payments.





For the 3rd year running Cornwall Finance & Investment Services Ltd, has been included in the Times Newspaper list of the UK's top 1000 IFAs, by customer satisfaction. Please view our rating on www.vouchedfor.co.uk the "Trip Adviser" for Financial Professionals. Thank you.



Is Cornwall Finance & Investment Services Ltd. Good Value for Your Money Management?

We think Yes! In research conducted by Money Marketing, the following National IFA firms were asked about their maximum ongoing annual charge for funds under management.

Chase de Vere 1%, Bankhall 1%, Equilibrium 1.50%.

For 11 years Cornwall Finance & Investment Services annual management charge has been only 0.50%, we have chosen to maintain this for the next year.

The pandemic has shown the effectiveness of virtual meetings. If you need to see us or cannot meet virtually, we will still travel to you or you are welcome to our offices. However if it is only a check-up or for us to answer your questions, then virtual will be our default mode of meeting you.

We wish you a very happy end to 2021 we look forward to speaking to all of you soon.

If you wish to discuss anything in this news letter please call us on 01637 83998.

Best Regards

Mark Ridgment

And all at Cornwall Finance& Investment Services.

