July 2023

NUGENIS NEWS

PEOPLE NEWS

Birthdays

It was a busy month for birthdays at Nugenis with the following people celebrating in June:

2nd - Jackie Mico
Client Relationship Coordinator

11th - Sarah Harvey
Client Relationship Coordinator

28th - Leanne Watkins
Paraplanning Manager

Investment Commentary

July 2023

Market overview

Equity markets performed strongly over June with the global index up over 5% in local currency terms, albeit this translated into a c3.5% return for unhedged investors given the relative strength of Sterling.

The Japanese market continued to lead the way with sentiment buoyed by the improving economic backdrop, the positive effect of a weak Yen on corporate profitability and continued signs that corporate Japan is starting to put greater onus on shareholder value. The US market also performed well, and it is encouraging to see market leadership broaden away from 'big tech' which has almost singlehandedly driven the index higher so far this year on the back of strong earnings announcements and excitement around the investment opportunity presented by Artificial Intelligence (AI). Corporate earnings growth is slowing across the developed world but, so far, not by as much as was feared coming into this year. The relatively modest earnings downgrades and the degree of resilience the corporate sector is showing is, to date, incompatible with a 'normal' recessionary environment.

US inflation has now come down to 4% and market expectations are that the Federal Reserve can now (at least) pause its tightening cycle and turn its focus more towards growth rather than inflation concerns. In contrast, above expectation inflation numbers in the UK led to the Bank of England raising rates by a full 50 basis points to 5% and pushed the expected peak rate expectations up to 6%. Unemployment remains low, both in the UK and across the developed world, and wage growth remains strong (7% in the UK) which is continuing to push cost pressure on the services sector. Inflationary pressures are easing quicker in the Eurozone than the UK, however the ECB also raised rates by the expected 25 basis points and also highlighted that more tightening may be required. Against this backdrop sovereign bond yields rose (and prices fell), most acutely in the UK.

Central banks will now be closely observing economic indicators to assess the (typically lagged) effect of higher rates and tighter lending conditions. This will continue to add some uncertainty to the future direction of policy.

Strategy Positioning

We are maintaining equity market exposures at the upper end of strategic ranges however we are reallocating some exposure towards Continental Europe and Japan, slightly reducing exposure to the US. We think the relative prospects for both regions have improved in recent months and relative market valuations also look favourable.

Our general conviction in the US dollar is being maintained, although we also see benefit in further currency diversification via the yen and euro as part of this equity reallocation. The yen looks particularly oversold and increased allocations to Japan will hopefully benefit from some currency uplift as Japan's economy gathers momentum and money flows back to the region.

We are maintaining bond market positioning, having increased duration and skewed investments more towards Investment Grade credit. Whilst default risks have risen, we feel investors are being more than adequately compensated and the outlook for the asset class is improving as inflation recedes and rates plateau.

Teaching children and young adults about money

With so many financial pressures facing young people today, it's never been more important to get a good grounding in money management from an early age. But how do you go about teaching children, grandchildren and young adults about financial matters?

In an age when people share so much of their lives on social media, one of the few topics that remains largely taboo is our finances. Money is something that many of us are reluctant to talk about openly, even with friends and family, but for those who have young children finding a way to open up that discussion is an important part of their financial education. Talking about how we save, manage and use our money helps us ensure tomorrow's adults are equipped with the financial literacy they'll need in life.

The way we go about doing that will depend on the age of the children we want to endow with money management skills. While for some children the most effective approach is to serve as an example or role model of how to manage finances, for others there will be specific skills and knowledge that you'll want to pass down.

Get into a habit

It might be tempting to wait until a child hits their teenage years before getting into the subject, but in reality the sooner you get started, the better. According to financial education charity MyBnk, adult money habits are formed around age 7[1] , including understanding the value of money and how to plan ahead. And research by the government-backed MoneyHelper service finds that when children have conversations about money are given regular pocket money or payment for chores, and have responsibility for spending at an early age, they are better at managing money as adults [2].

This means it's a good idea to begin talking to children about the basics of money as early as 3 or 4. A good way to start is by playing shops, using real coins to 'buy' goods, so they start to recognise the different values and understand that a teddy bear might cost more than a sweet. You can also get into your own habit of involving them in simple decisions about money, such as comparing prices and making choices about which snacks to buy.

As children get older and you have the option of giving them pocket money, you can open a children's bank account. Showing them the interest that builds up just for putting money into an account could be particularly effective. While you can choose an account that offers an all-singing, all-dancing app to help your child become more engaged with their finances by tracking spending and setting savings goals, beware that some of these services charge a regular subscription fee which can eat into the child's money. Traditional children's current accounts are usually free and will often add interest to the amount saved, so it's worth shopping around to decide what will work best for you.

Sharing responsibility

In theory, it's easier to engage children with money once they reach their teens when they have more options open and choices to make. As children get older, it's important to give them more responsibility for their saving and spending, trusting them to make their own financial choices within the limits you set.

There are several ways of going about this, starting with the basic principles of budgeting. One option is to give them a monthly allowance linked to 'performance' criteria such as school attendance, homework, domestic chores and maybe certain behaviours. They can then decide whether to use up their allowance each month or carry it over and save the credit they've built up for the future.

From age 11 you can open a bank account for them with certain banking providers, while prepayment cards - on which they can't spend more than they have - are sometimes available for children as young as 8. They can't open an account for themselves until they turn 16, however.

Pre-paid bank cards can be especially educational when paired up with a mobile phone app. These include pocket money apps where parents and children can set spending limits, savings goals and tasks. Again, some providers will charge an ongoing fee for this service, while others will offer some online functionality for free, so again shop around and make sure you understand the costs involved and how they will impact your child's or grandchild's savings.

Some provide the option of creating named pots for different needs, such as short, medium and longer term savings, though you don't need an app to develop this system with your child or grandchild. Framing their spending and saving in terms of immediate and longer-term needs can be an empowering way of getting a child into the habit of thinking about future choices. They'll also learn fundamentals such as only being able to spend what they've saved - even if those lessons can sometimes be hard to learn.

If you're feeling confident you could even involve your child in later life choices. For instance, by involving them in decisions about Junior ISAs and children's pension and investment plans you can give them a say in the money that you set aside for them.

A longer leash

If in the early years you're establishing simple habits and in the teenage stage you're giving them a sense of financial responsibility, the later teen years and early adulthood should be about autonomy and self-sufficiency. By this point, the hope is that your children have an idea of the main principles of budgeting, saving and spending and can make responsible decisions about their finances.

Older teens and younger adults have more complex decisions to make, especially if they've left home, are pursuing further education or have started working. That's when student loans, tax, rent, using credit and managing debts might come into play. Hopefully, having given them limited responsibility for their finances earlier in life, by the time they are ready to go it alone they will be well equipped to deal with the challenges of balancing their income and spending.

While you might still be to supporting your child or grandchild financially at this stage, your role may be more about guiding and helping them deal with problems. Ideally, by getting into a habit of talking about money from an early age, grown-up children will feel more able to talk about any financial difficulties they run into. This could involve setting boundaries. If they ask you for money, for instance, making sure there's clarity as to whether it's a gift or a loan can be helpful in the long run.

Your own behaviours remain important here. If their parents or grandparents don't talk about money or demonstrate good habits, children or grandchildren don't have a model of what good looks like. Whether it's making investing decisions or managing debts, being open to conversations and sharing dilemmas with your children can set an example and encourage them to engage rather than avoid.

Next Steps

We think the Consumer Duty rules will have a long-term positive impact on financial services firms as a whole. While for most providers we expect the impact of the new legislation to to be minimal, for some this represents a significant change in how they communicate and deal with both advisers and clients. Financial Planners were already subject to strict rules to protect clients, and our hope is that the new legislation will provide us with additional tools to help us provide an even better service for our customers in the future.

If you have any questions about the new rules please speak to your Financial Planner who will be happy to talk to you about them in more detail.

[1] https://www.mybnk.org/our-work/financial-education/impact/
[2] https://www.moneyhelper.org.uk/en/family-and-care/talk-money/how-to-talk-to-your-children-about-money-age-3-4

CONTACT US

Nugenis Financial Planning Limited
5 Oak Tree Court
Mulberry Drive
Cardiff Gate Business Park
Cardiff CF23 8RS

029 2050 8000

JustAsk@nugenisfp.co.uk

nugenisfp.co.uk

FOLLOW US: