029 2050 8000
JustAsk@nugenisfp.co.uk

Nugenis News

November 2022

People News

Welcome to Nugenis

Last month Nugenis welcomed a new member of staff to the Client Relationship team. Katie Nash joined us on the 10th of October and has been in Financial Services since 2021 after spending five years in the hospitality industry.

Katie has a degree in Events Management from Manchester Metropolitan University and when she isn't working likes to spend time crocheting, walking her rescue dog Ronnie on the beach, going to concerts, watching crime documentaries and spending time with friends and family.

A huge welcome Katie from everyone at Nugenis!

Birthdays

16th - Paresh Valji, Financial Planner

Other news

Egress

Last month we announced that we had introduced a new secure email system called Egress and also provided a guide on how to register for an account.

When we send a secure email, in addition to you needing to log into your Egress account we will also password protect the contents for an additional level of security. This will be your date of birth in a standardised format of DDMMYYYY.

If you need another copy of our guide on how to register and set up an Egress account, please contact us either on the office number or via justask@nugenisfp.co.uk

In-house training

In our last newsletter we told you about some training we are delivering to our in-house team over the next couple of months.

As a reminder, there are two more sessions scheduled between 10 and 11 a.m. on:

Monday the 21st of November

Monday the 5th of December

During this time should you call the office you will be able to leave a message and we will call you back. However, if your query is urgent, our financial planners are not included in the training so you can contact them on their usual number or via email.

Our MacMillian Mighty Hike - the final score

In recent newsletters we made you aware of the Macmillan Mighty Hike that some of our team were participating in. We have now closed both the team and individual pages so it is no longer possible to make any further donations.

The final total is £3,376 in donations with an additional £601 in Gift Aid to give a combined total of £3,977. This is a fantastic achievement and we are so grateful for all the support we received. Thank you so much.

Investment Commentary

bordier | 1844

November 2022

Foreword by Gareth Tregidon, Chief Executive Officer, Nugenis Financial Planning

Following on from some webinars we ran last week in conjunction with our appointed investment partner, Bordier, based on the feedback received we've included a slightly longer investment update this month.

Having taken on full responsibility for managing the Nugenis range of model portfolios in October, Bordier and the Nugenis Investment Committee recently agreed to make some strategic changes to our portfolios. What follows aims to explain not only the economic position and what's been happening over the last month, but also more on what we're doing with regard to your portfolios.

As always, if you have any questions regarding the update please speak to your Financial Planner.

Developed market equities staged a strong recovery over October, with the US market leading the way despite weak manufacturing and services data and despite the Federal Reserve continuing to stress the need for further rate tightening until inflationary pressures recede.

In the UK, the appointment of Rishi Sunak as Prime Minister and Chancellor Jeremy Hunt's reversal of much of the now infamous 'mini budget' was favourably received by markets. This led to a highly unusual scenario of the UK equity market, UK government bonds and Sterling all rising around 3% over the month. Economic data was weak with a contraction in the economy in August confirmed, and evidence to suggest that this trend is continuing.

Economic data in the Eurozone also disappointed with the services and manufacturing Purchasing Managers Indices (PMI's) already indicating recession. There was some brighter news for investors however, with the European Commission announcing firm plans to address the energy crisis in the shape of an energy price cap and a coordinated purchase scheme. The ECB raised rates by 75 basis points as it continued to target reducing inflation (now 10.7%).

In contrast to the strength across developed markets, emerging markets fell 3% in October. Much of this was driven by the weakness of the Chinese market, where investors were disappointed to see no let-up in the zero-covid policy, with the technology sector particularly weak in the face of newly implemented component supply controls from the US.

There was a wide divergence of returns across fixed interest markets. As noted, the UK market performed very strongly, with the 10-year gilt yield falling from 4.2% to 3.6% and the 2-year yield from 3.9% to 3.3%. Eurozone yields were largely unmoved, with the 75bps rate rise already priced in while US Treasury yields rose slightly (and values fell) as resilient employment numbers and persistent inflation pressures reduced the perceived likelihood of a change in rate policy.

Broad commodity indices rose over the month with higher energy prices only partially offset by some weakness in agriculture and gold.

Strategy positioning

Fixed interest markets remain volatile in the face of acute inflationary pressures. As well documented elsewhere bonds have not behaved like defensive assets so far this year, as rate expectations have risen substantially across much of the developed world. Looking forward we believe that some value is starting to reappear, and that we may see a more 'normal' profile of returns from here. We have reduced exposure to UK fixed income assets where volatility has reached extreme levels in the face of political and policy uncertainty and the fallout from the 'mini budget'. We have moved some of this exposure to sovereign bonds outside of the UK where we see a better risk and reward profile and which we believe will likely provide better protection should we see future periods of equity market weakness.

We have also been active in equity markets, reducing exposure to the Eurozone which faces the greatest risks stemming from the conflict in the Ukraine as well as particularly problematic policy decisions to address its inflation and growth challenges. We have also reduced exposure to emerging markets where volatility is heightened and the slowing global economy and the strong Dollar present a headwind. We are skewing exposure more towards the US market where we see relative economic and corporate strength.

The UK economy looks set for a period of higher inflation and lower growth relative to much of the developed world, and we are now looking to reduce exposure to the UK market and reallocate to higher conviction regions, especially the US. We are also selectively adding targeted exposure to two important investment themes: global infrastructure assets, plus environmental and climate change initiatives. Given the ever-increasing commitment from governments across the globe to these themes we believe this exposure has the potential to produce significant excess returns over the long term.

We continue to favour equities given current valuations, the relative resilience to-date of corporate earnings and our expectations for the global economy over the next few years. We are, however, cogniscent of the current macroeconomic and political risks and are ensuring that, where appropriate, we also hold funds and strategies that target absolute returns regardless of market direction and help to reduce portfolio volatility. Exposure to our highest conviction managers in these types of strategies is therefore being increased with a view to reducing the downside risk in portfolios.

FEATURED INSIGHT

Coping with the current market turmoil

Stock markets have had more to digest in the past year than they have for much of the past decade. A pandemic, war in Europe, inflation and rising interest rates have left investors' nerves frayed. Every time markets have processed one problem, a new one has emerged. Given that there appears no immediate end to the difficulties facing the global economy, how should you respond as an investor?

Short of a miracle in the next few months, 2022 will go down as a year most investors would rather forget. The FTSE All Share is down around 9.5%[1] for the year to date, having at one point in September being down over 13%, and there has been a lot of unsettling volatility over that time. At the same time, there have been relatively few places to hide. Many of the winning sectors of the past few years – particularly technology – have been very weak, as have previously 'safe haven' assets such as UK government bonds. The S&P UK Gilt Index shows a year to date return of minus 22.4%[2]. Energy, mining and infrastructure companies have been the rare exceptions.

While much of the market volatility has been driven by global problems, like the supply chain disruption caused by the continued fallout of the Covid pandemic and the war in Ukraine, the UK has also been affected by other issues. Chancellor Kwarteng's so-called 'mini-budget' seriously unsettled the UK government bond (gilt) market.

By seeking to marry additional spending with tax cuts, without providing the usual forecast information of how this would be funded, the market anticipated higher borrowing by the UK government and pushed up gilt yields and saw sterling fall to an all-time low against the dollar[3]. This, in turn pushed up mortgage rates, which are priced from the gilt market, and the speed of the rises also destabilised defined benefit pension funds which use gilts as an important part of financing their current and future retirement income payments.

The Bank of England acted quickly to restore stability and the Chancellor rowed back on some of his more controversial plans, but the equilibrium appears fragile. At the same time, concern about increasing inflation and the likelihood of further interest rate rises remains, adding to the overall economic uncertainty.

Why it's important to stay invested

Given this gloomy backdrop, the temptation is to sell out of stock markets or at least stop putting any more money in. However, there are several reasons why staying invested during periods of market volatility is important for your long-term finances.

The biggest problem with selling in times of turmoil is timing the market. Most investors don't think about selling out until after markets have fallen a long way, which means they are likely to be selling when sentiment is weakest, crystallising their losses.

In addition, generally private investors don't have a good track record of reinvesting when markets are still low. Stock markets tend to turn a long time before the environment appears to be improving, which makes it difficult to identify the best time to reinvest. During the pandemic, for example, the S&P 500[4] started to change direction in March 2020, eight months before a vaccine had been found. By the time the vaccine offered a way out of lockdowns, markets were higher than they had been in early 2020.

Missing a few key days in markets can be very important. These often come after significant falls. Research from JP Morgan Asset Management showed that someone investing $10,000 in the S&P 500 on 1 Jan 2002 would have a balance of $61,685 if they'd ignored markets and stayed invested. If they'd missed the 10 best days, their investment would be just $28,260[5]. A similar pattern is seen across all markets.

Why you should keep investing

Of course, if your household finances are really under strain then you may need to reconsider your savings plans but, if you're still building your wealth, there are sound reasons to keep investing through a downturn in markets. It means you will be investing at a lower price point, which helps you achieve a lower average buying point over time and should improve your returns.

Also, gaps in your regular savings can put a real dent in your long-term savings. Research from life insurer Aegon[6] shows that stopping pension contributions for just one year at age 25 will save around £622. However, it could put a £7,300 hole in your pension fund at retirement because you miss out on the effects of compounding. A five-year break could knock £42,100 off your pot[7]. It is important not to take any decisions today that will hurt your long-term financial security.

It is worth remembering that when you contribute to a pension you gain valuable top-ups from the government and, for those in a workplace scheme, your employer. This is essentially 'free' money. For those in England, Wales and Northern Ireland, the government will add 20%, 40% or 45% to your pension contributions in the form of tax relief (different rates apply in Scotland). If you are invested in your employer's pension scheme they will also add in a minimum of 3% of your salary. If you pause your contributions you may save a little at the time, but you miss out on a lot which will boost your future pension pot.

Next Steps

Market volatility can be unsettling, especially at the levels we've seen recently, but it is part and parcel of stock market investing. It's worth remembering that stock markets have been shown to outpace cash over time, providing investors with higher returns and better protection against inflation. While the FTSE All Share is down over 9% this year, even allowing for this the index has increased by around 90%[8] over the last ten years.

This recent bout of weakness should not have fundamentally altered your ability to achieve your longer-term financial goals, even if it feels uncomfortable while it is happening. Companies have not lost their power to generate revenues and grow over time and a well-diversified portfolio will take advantage of this fact. But if you are at all concerned about the current market turmoil, or would like to review your investments, you don't need to wait for your annual review. Please contact your planner, who will be happy to help.

[1]https://www.londonstockexchange.com/indices/ftse-all-share accessed 11/11/2022
[2]https://www.spglobal.com/spdji/en/indices/fixed-income/sp-uk-gilt-index/#overview
[3]https://www.cnbc.com/2022/09/26/bank-of-england-monitoring-markets-very-closely-after-pound-falls.html [4]https://www.marketwatch.com/investing/index/spx
[5]https://www.cnbc.com/2022/03/09/you-may-miss-the-markets-best-days-if-you-sell-amid-high-volatility.html [6]https://www.aegon.co.uk/news/the_impact_of_pausingyourpensioncontributions.html
[7]https://www.actuarialpost.co.uk/article/think-again-about-taking-a-break-from-pension-contributions-15862.htm [8]https://www.londonstockexchange.com/indices/ftse-all-share accessed 11/11/2022

CONTACT US

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

029 2050 8000

JustAsk@nugenisfp.co.uk

nugenisfp.co.uk

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