September 2023

NUGENIS NEWS

PEOPLE NEWS

Birthdays

July and August were busy months for birthdays at Nugenis with the following people celebrating:

9 July - Laura Arandjelovic
Paraplanner

13 July - Anabelle Harrington
Executive Assistant

18 July - Stephen Hubbuck
Financial Planner

22 July - Maria Hopkins
Client Relationship Manager

11 August - Lee Browning
Paraplanner

18 August - Nathan Bater
Financial Planner

Investment Commentary

September 2023

Market overview

It continues to be a volatile period for markets and, after a strong July, global equities fell nearly 2% in local currency terms in August. Markets remain preoccupied with the inflation and interest rate outlook, and stronger than expected economic data, particularly in the US, was the main catalyst. Retail sales in the US came in well above expectations, unemployment fell and figures showed that wage growth, both in the US and globally, is moderating less quickly than central banks would like. This is not the first time that markets have fallen on the back of generally positive economic news in the last 12 months.

As was expected, the Bank of England ('BoE') raised rates by 25 bps to 5.25%. The Q2 growth figure in the UK came in slightly positive (versus a flat expectation) while inflation eased marginally to 6.8%. Despite this, record levels of wage growth and comments from the BoE that it may hold rates at heightened levels for a prolonged period hit sentiment, leading to the UK market falling 2.5%. It was a somewhat similar story in the eurozone, which also grew marginally in Q2 but also faces some headwinds in terms of wage growth and persistent, if falling, inflation pressures.

Emerging markets were considerably weaker than their developed counterparts over August, falling just over 6%. Much of this underperformance was driven by disappointing news flow from China where the deflationary environment continues to put pressure on retail sales and business investment, particularly in the property sector. The People's Bank of China eased rates twice over the month and is looking at wider measures to stimulate growth and support markets, the impact of which will be a key focus for investors in the region.

In contrast, news flow regarding the Japanese economy continues to offer some encouragement – the economy grew significantly in Q2 and productivity is on the rise. Modest increases in inflation and wage growth are being welcomed by investors given the very different economic backdrop versus the US and much of Europe, and Japan was the only major market to rise over the month.

Given the slightly more hawkish tone across developed markets bond yields rose over the month (meaning values fell). Market expectations are for rates in the US to start to come down in 2024 with potentially one more rate hike this year. All evidence still points to the 'higher for longer' interest thesis in the eurozone and the UK.

Sterling weakened against the US dollar by over 1% in August, which provided a currency gain on our dollar-denominated assets and served to hedge some of the losses across equity and fixed income markets. The UK continues to face growth and inflation headwinds and we see value and potential return upside in diversifying currency exposure across our strategies.

Strategy positioning

Uncertainties remain regarding the economic outlook and the path of inflation and interest rates however we are maintaining our current exposure to equities. So far this year company earnings in most key regions have proved more resilient than expected, while economic data has also, on balance, surprised on the upside.

Investment Commentary

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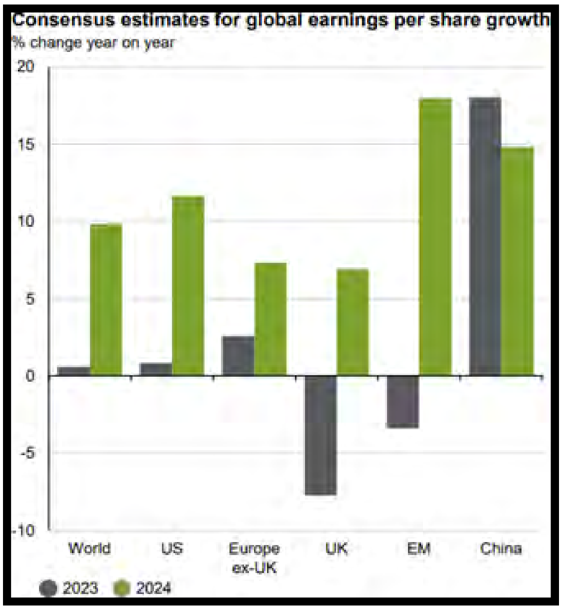

We expect the market focus to turn towards a significant recovery in company earnings next year.

Source: JPMorgan Guide to markets, August 2023

Equity market valuations look undemanding relative to both long term and shorter-term averages and our expectation is for an economic and earnings recovery into 2024. Markets are forward looking and we anticipate that their focus will move away from the anaemic economic conditions this year and onto a more positive outlook next year.

We have added investments to Europe and Japan where we see excellent opportunities and it is positive that the opportunity set for investing is widening beyond the US and Asia. We also see opportunities in fixed income at current yields, and in investment grade corporate bonds in particular.

While we do see attractive opportunities across asset classes our alternative investments still have an important role to play in providing low risk and uncorrelated returns. This is particularly true in periods where volatility is heightened.

FEATURED INSIGHT

What’s the best way to manage later life care?

Few people have plans in place when it comes to paying for the extra help they or family members may need as they grow older. Yet as more people are living longer, it’s an issue that is likely to affect many of us in one way or another. This month we consider the best ways to fund later life care.

Thinking about needing care in older age is an emotive subject. It can be hard to imagine becoming less independent and needing more help from others and so for most of our lives it can feel quite a long way down the priority list. However, there are several reasons why it’s becoming increasingly important to at least consider the question of funding later life care earlier, not least the peace of mind it can bring.

Moving Target

Perhaps the most obvious reason to address it sooner is rising life expectancy, as many people can now expect to live for 20 or 30 years once in retirement. A man aged 65 now can expect to live until 85, with a one in four chance of making it to 92, according to the Office for National Statistics (ONS) life expectancy calculator[1]. A 65-year-old woman has another 22 years to live, on average, with a one in four chance of reaching 94. These are just probabilities, however, which means we’re planning for a moving target.

The likelihood of having one or more ongoing health concerns increases with age, and Age UK predicts that the number of older people living with conditions that impact their ability to manage everyday self-care tasks, like walking, feeding, toileting and bathing, will increase from 3.5 million in 2015 to 5.9 million by 2040[2].

Living longer has an impact on the amount of money you’ll need in retirement, regardless of whether you’re funding care. The ‘pension freedoms’ reforms of 2015 added much more flexibility to retirement plans, giving savers greater access to their pension pots and making it easier to stay invested up to and in retirement. However, these freedoms have also added complexity to the retirement landscape, with more choices to make and a heightened risk of getting it wrong, even before we bring care costs into the equation.

Cost of Care

Not everyone will need professional care as they age. Research during Carers Week 2023 estimated that 10.6 million people (or 20% of the UK population) provide unpaid support or care to someone[3]. While an important part of being a family is looking after our loved ones, long-term caring responsibilities can take a toll on your finances as well as your own health and wellbeing. Three-quarters (75%) of carers in employment said they worried about juggling work around care commitments.

If you decide to look at professional long-term care services, costs vary hugely, being dictated by factors including the level of care needed and the part of the country you're in. The amount of financial support available varies between different local authorities and the different countries of the UK. Public funding for care tends to be more generous in Scotland and Wales than in England, however, the Institute for Government finds that budgets have been squeezed across Britain, meaning that the number of people receiving state-funded care has declined over the past decade[4].

On average, care home places cost around £30,000 a year, climbing to £40,000 or more where nursing care is needed. The cost of care at home adds up quickly too, with two hours a day adding up to more than £12,000 a year, based on average hourly rates[5]. Local authorities have to assess anyone needing support with day-to-day tasks and will also assess eligibility for help with care funding. This is means-tested, with asset thresholds determining whether you fund your own care, have it covered by the local authority or if you qualify for some local authority support but must also pay top-ups.

If you don't qualify for state support, there are several ways to cover the cost of care through personal means. For many people, the first option will be to dip into their savings, investments and pensions, but there are other options too. For example, some people use the capital held in their property either by downsizing or by taking out an equity release product, which allows homeowners aged 55 or over to access the equity in their property while continuing to live in it.

Some local authorities offer a 'deferred payment' option, through which the authority covers a homeowner's care cost on the proviso that they'll be repaid when the home is sold at a later date. Annuities are another possibility, which is a type of insurance product which pays a guaranteed fixed income. Immediate Needs Annuities or Immediate Care plans are insurance products where you pay a premium in exchange for a lump sum that bridges the gap between your income and your care costs for the remainder of your life. The income from the plan is tax-free and paid directly to the care provider.

Next Steps

Paying for long-term care is a complex market and the products, fees and funding options are liable to change at any time. There's also a huge amount at stake in both emotional and financial terms, whether it's your own care needs or those of a family member or friend.

This is an area where planning ahead can really help, so please get in touch to see how we can help you manage later life care funding, or any other financial matters.

[1] https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/articles/lifeexpectancycalculator/2019-06-07
[2] age_uk_briefing_state_of_health_and_care_of_older_people_july2023.pdf (ageuk.org.uk)
[3] https://www.carersweek.org/media/yqkdkodx/carers-week-report-2023.pdf
[4] https://www.communitycare.co.uk/2021/05/11/uks-four-social-care-systems-measure/
[5] https://www.moneyhelper.org.uk/en/articles/long-term-care-services-at-a-glance

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