Bulletin

KMG CHARTERED FINANCIAL PLANNERS

SERIOUS ABOUT WEALTH

June 2021

The Dilemma of Inflation

By **Nick Matthews**
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A few months can make such a difference! Across much of the Western World we are all looking forward to the resumption of life almost as we knew it pre-Covid. Of course, if you had a holiday booked to Portugal you might think differently just now, but for most of us we are happily filling the restaurants, hotels and beaches of the country.

Look at the numbers, and the recovery has been stronger and faster than expected. Economic growth in the UK is estimated to be close to 6% this year, compared to the pre-Covid level of only 1.9%.

Roll forward from last year and you can clearly see this enormous pent-up demand for everything from food to holidays, and with that instant demand for staff who either are not there because so many people have returned to other countries (even Wetherspoons now wants more immigration to fill pub vacancies), or who are not ready to or cannot come back. Some will be fearful to return or will not return because current benefits make it possible (at least until September) to remain away from work. Humans can be incredibly adaptable and some simply transferred their skills to other sectors as they needed to remain employed come what may.

Another huge change is that a year ago they were giving oil away; now it is back above $70 per barrel. This demonstrates that too much demand and insufficient supply simply cause prices to go up.

Economic growth and rising wages should be the Holy Grail for any economy. To do that we need people to earn more, but in exchange to become more productive with their time. If the cost of living, because companies simply pass on wage increases and higher raw material costs to consumers, is rising faster than earnings, you still end up poorer.

If you can get it to work well, and the accumulated debt pile looks smaller as a percentage of earnings, there is no need for big tax rises, or austerity drives. A big mortgage in 1985 of £50,000 would seem unbelievably small to people looking to buy their first house today, even though the affordability for those lucky enough to have the deposit is probably better than ever.

The question is not if we will see inflation - we are - but whether as the pent-up demand eases, so does the cost pressure; and as the supply chains build, capitalism ought to ensure supply builds where most efficient or in demand.

Inflation is by far and away the most popular topic in the financial world today. Runaway inflation or a balancing-out of deflationary pressure in recent years? The outcome will affect monetary policy by central banks and from there into interest rates, and down the chain to house prices and investments.

So what do we think at KMG?

Here at KMG we think that inflation is probably the best way to move beyond the accumulated debt without the most horrific unrest as the Government tries to impose cost-cutting on the NHS, education, welfare and pensions in order to balance the books. Tax rises are probably palatable, but unless they affect everyone - VAT and modest incomes included - they cannot be much more than sticking plasters on the problem.

One thing is for sure, the combination of inflation plus the other changes in society that we have seen over fifteen months of Covid-related limitations, mean the speed of change is much quicker than in the past.

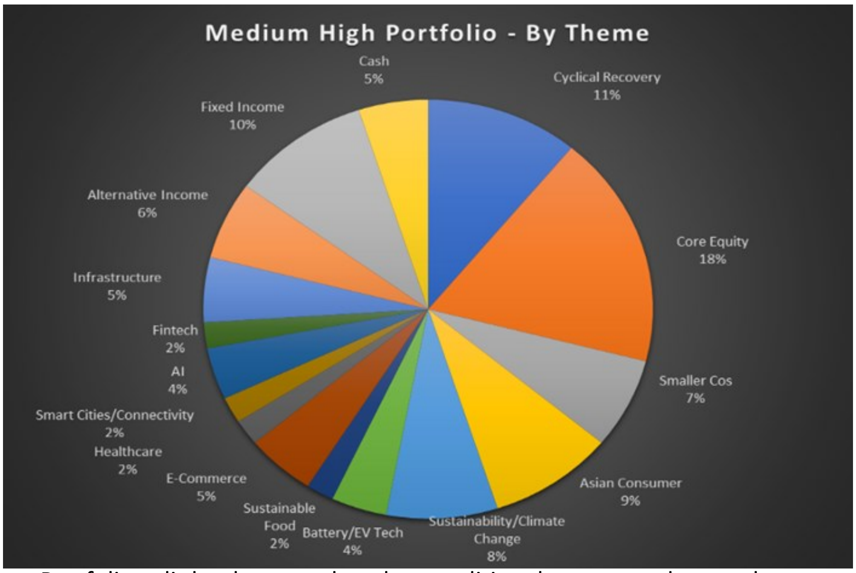
The FTSE100 list of big UK companies started in 1984. There are only about 25 companies in the original list who still make it today. A 75% turnover in 36 years. The next 10 years will probably see the same level of change as would previously have taken 30 years. Demands from society, the challenge of the environment and the opportunities offered by technology are going to split the winners and losers like never before.

(Continued page 2)

The Dilemma of Inflation continued...

(Continued from page 1)

And as KMG continues to evolve there is every reason to embrace the changes and the opportunities they bring. This is why we are becoming more efficient, quick to respond where necessary and ever more targeted in our investment strategy, breaking down the wider portfolio into specific, identifiable themes that will stand the test of time.



Portfolio split by theme rather than traditional sectors and asset classes

Minimum Pension Age Increase

By **Christine Norcross**
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HM Treasury has confirmed the Government's intention to raise the normal minimum pension age from 55 to 57. This will happen in April 2028. This means:

- Clients born before 6 April 1971 will continue to be able to access their pension at age 55.
- Clients born after 5 April 1973 will have the earliest date they can access their pension benefits delayed by two years.
- Clients born between 5 April 1971 and 5 April 1973 will have a window from their 55th birthday to 6 April 2028 to take benefits before the minimum pension age increases to 57. If they do not access their pension during this time, they will need to wait until their 57th birthday.

Increasing the normal minimum pension age reflects increases in longevity and changing expectations of how long we will remain in work and in retirement. Since its introduction, the normal minimum pension age has increased broadly in line with the state pension age, generally being around 10 years below it. Any future rises will be expected to be linked to any increase in the state pension age.

The Government is still consulting on how the increase will be implemented. We are mindful of this when considering pension transfers. If you have any questions or comments on the increase in pension age your adviser will be pleased to discuss these with you.

Back to the Office!

With the Government guidelines relaxing sufficiently to allow 6 individuals to meet indoors you may like to arrange for your meetings to be face to face again. Alternatively, with all the technology available to us you may be happy keeping your appointments to video calls or by 'phone, and we are of course equally happy to continue to facilitate these options for you.

We can meet in our board room which is in a separate building next to the office. Our 'in' office team work on rotation so we continue to keep our numbers contained, and with the lovely expanse of space we have, social distancing is not a problem! We are committed to regular weekly testing and have multitudes of sanitiser available, of course. Also, nearly all of our team have now had at least their first vaccination. So, if you feel now is the time you would like to see us (in the flesh) please be assured we have your safety in mind.

Sustainable Investing: ESG Investing – Environmental, Social and Corporate Governance

By **Jenna Duffett**
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What are KMG doing?

For many years we have all listened and heard David Attenborough speak and produce documentaries about the environment and the damage we, the occupants, cause. Blue Planet was a real turning point in sending the message that we cannot continue to neglect the Earth.

One of the positives of the pandemic was the escalation in changes to the way that we live. Overnight we saw heat maps in China show the reduced energy that was consumed as they went into shut down, and this phenomenal change occurred all around the world. Today as we in the UK work towards a full reopening of society, some will return to habits of before, but for many of us life has changed beyond comprehension from the way we work to the way we shop. And this is reducing travel and improving our carbon footprint.

Sadly, some things have been much slower to change where, as individuals, we have less control, for example, the overuse of plastic. Headlines have shown that some of our waste in the UK (and let us be honest probably things we all thought were being recycled through our bins each week) have ended up overseas and simply dumped. Each week we send our waste out of our home with the honest expectation that something good is being done with it. None of us make plastic at home; we receive it into our homes from the goods we buy. One thing I have missed this past year is the opportunity to go to the butcher or the greengrocer more often, not only to support local business, but because the packaging contains far less plastic. We all have good intentions and we all should continue where we can to support efforts to reduce the impact we have on the globe, which may not affect us today, but will the next generations to come.

As many of you know KMG as a business has always attempted to have various environmental systems in our building. Some have been more successful than others over the years, but we are electricity neutral and in the main generate excess income from our solar back to the grid.

We have recognised that we need not have as large an office now as we did before, simply as a result of the change in our office and homework balance, which we do not feel will change greatly in the future. We will therefore be looking to create a smaller office next door to where we are, but as a new build we have some great opportunities to be really eco-friendly!

From an investment perspective we continue to challenge the content of the portfolios seeking funds and companies that embrace ESG or are sustainable in their investment content. This does not come without huge challenges.

As with our own recycling efforts at home, unintended consequences do occur. Fund managers try to invest in companies that embed ESG in their culture, but there are times where best efforts fall short. When we consider how a battery is made for an electric car, the metals required to make the battery must be mined and cannot be avoided. The carbon impact of a new electric car is huge, but the long-term gains can be argued to be worthwhile.

Recently, Investment houses have been in the press for their lack of ESG ethos and we have sought clarification from them and challenged this. But as an Investment house, just like us at KMG and as individuals, whilst screening the concepts and ideas at times it is really difficult to know what is being done at the far end of a production chain.

We constantly review the market, opportunities, and the ethos of the funds we recommend to you, and we try to keep our investment morals at a high level. However, there will be times, like the rubbish arriving in Turkey, that fund managers make mistakes or simply did not know until it was too late.

All of us need to take responsibility for our actions and the consequences therefrom, whether as an individual or a large corporation. What we are seeing today is a much wider investment field from

(Continued page 4)

ESG continued ...

(Continued from page 3)

which we can select funds for you that balance the sustainable and ESG mantra while, of course, balancing the costs of these funds - all of which have an impact on investment returns.

At the heart of what we do continues to be seeking positive investment returns for you but working hand in hand wherever possible with positive-impact funds and fund managers.

Some great steps have been made in the last 12 months compared to the previous 12 months and we hope that the speed of change will continue to be as rapid! And that we will see some really interesting opportunities. At KMG we will continue to challenge the companies, for you and also for us!

Should I Invest in Cryptocurrency?

By **Gemma Barker**
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From your neighbour to your hairdresser, cryptocurrency is an increasingly hot topic. What is it?! Should you be investing in it? Is it ethical?

Bitcoin is the biggest and oldest cryptocurrency, launched in 2009 after the financial crisis and intended to be used as a currency entirely outside central bank control. However, since then thousands of other blockchain-based cryptocurrencies have launched and none have taken off as a mainstream currency, but many have become a highly speculative investment opportunity.

Support or opposition by an influential person such as Elon Musk or an established business such as PayPal can send the price of Bitcoin and other cryptocurrencies soaring or plummeting with little warning, and this is why it is not suitable as a means of payment: your weekly shop could halve or double in price overnight if you were to pay for it in Bitcoin!

Even if you are comfortable with the volatility in cryptocurrency value, you may not be able to get comfortable with their environmental impact. As a former layperson in this field it is my understanding that to produce or "mine" Bitcoin (and many other cryptocurrencies), large banks of computers solve complicated equations.

Mining is an energy-intensive process, and as the value of a particular cryptocurrency increases it becomes more worthwhile to mine, so even more energy is consumed. In recent days the President of Iran has banned cryptocurrency mining for four months, claiming it is putting too much stress on Iran's electricity grid.

This high-energy consumption is a design feature of cryptocurrencies such as Bitcoin, as the miners' machines authenticate batches of transactions as well as mining coins. The process establishes trust and security.

KMG's Investment Committee do not currently consider Bitcoin or any other cryptocurrency to be a good match with our investment ethos, but we would never say never. The world is increasingly moving towards green electricity and so the carbon footprint of a unit of cryptocurrency is likely to fall in the future.

While cryptocurrencies such as Bitcoin are too volatile to be useful as value transfer systems, digital currencies in some form will almost certainly become mainstream within most of our clients' lifetime. Jay Powell, chair of the Federal Reserve, recently announced that they are considering a digital version of the US dollar. The Chinese are currently trialling a digital version of the renminbi, and the UK Treasury and Bank of England have a task force working towards the creation of a digital currency.

Blockchain, the technology on which cryptocurrencies are built, can verify transactions and has potential applications in any industry where trust in digital transactions is needed. This is also something which we expect to increasingly be used in the mainstream.

We have already begun the process of incorporating the theme of financial technology into your portfolios, and specifically a fund which is focused on blockchain technology in that space. You will soon receive further information on this and our other key thematic investment changes.