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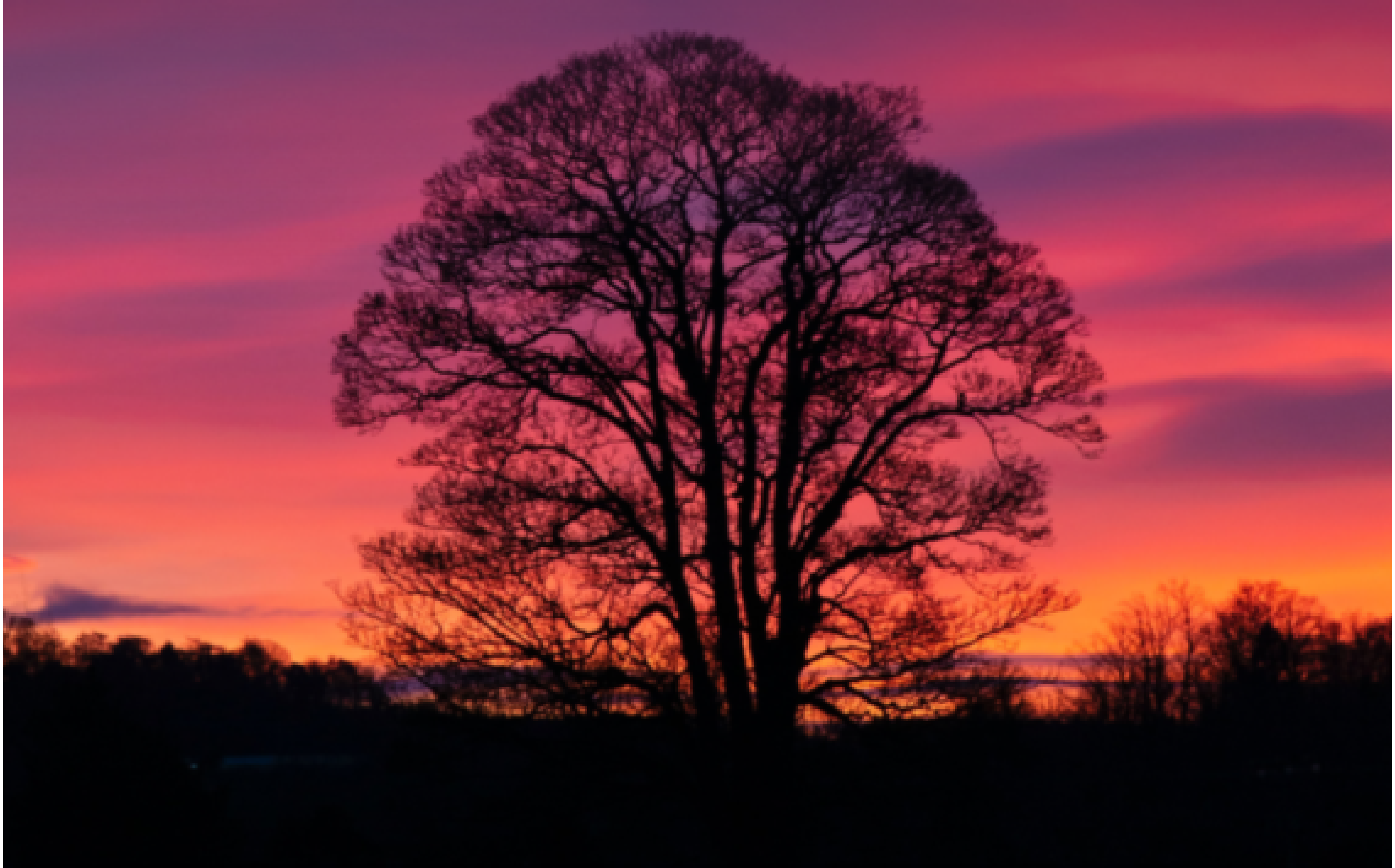
INVESTMENT VIEWPOINT

If you want to discuss how the details in this newsletter may affect your financial plan please contact us.



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Should we be concerned about rising inflation?

Most economists expect inflation to pick up over the next few months as lockdown restrictions ease and shops and restaurants reopen. But is this a cause for concern?

As lockdown measures begin to lift, financial markets are making their adjustments in anticipation of a rise in inflation, with bond yields picking up (meaning prices have fallen) and stock markets rotating from defensive sectors into cyclicals.

What is inflation?

Put simply, inflation measures the change in the prices of goods and services. If it rises then it takes more of our cash to buy things. We all experience inflation in our daily lives, from filling up our cars with fuel, buying groceries or using public transport.

In the UK, the official measure of inflation is the Consumer Prices Index. It's published by the Office for National Statistics (ONS), which monitors what people are spending their money on, using a basket of everyday goods and services.

The ONS adjusts the basket from time to time to reflect our changing spending habits. During lockdown, there was a shift with products like hand sanitiser and hand wipes being added, and items like white chocolate and ground coffee dropping off the list.

Inflation is all an illusion... or is it?

It's easy to ignore the impact of inflation on your finances. Most people's spending habits this month compared with the same time a year ago would probably stick to the same patterns – regardless of inflation at the time – because the differences seem small and therefore wouldn't affect the way they spend.

If you're trying to save money though, it's worth remembering that with interest rates currently lower than the rate of inflation, the real value of any cash savings is falling. In other words, the cost of living is increasing at a faster rate than your savings are growing, which means the spending power of your money is actually falling.

How will inflation affect investments?

Many people in the UK are preparing to spend the cash they've saved over the past year when the lockdown ends and shops, restaurants and entertainment venues reopen. Activity is likely to return to pre-pandemic levels and the expectation is that inflation is likely to pick up. Some economists are worried about inflationary pressures. In addition to this is the effect of government stimulus packages on the economy, which would provide another tailwind.

However, experts believe it's likely to be a short-lived phase and should not pose a longer-term challenge to fixed income or equity markets. The Bank of England does foresee inflation rising towards the 2% mark, but believes it will be a temporary phenomenon. Continuing deflationary forces like ageing demographics, technological innovation and global supply chains cast doubt over predictions of a new era of inflation.

Ultimately if you want to beat inflation in terms of finding some good returns on your savings, investing is the best option at the moment – due to cash savings rates being at such low levels.

One of the best ways to ensure your investments are given the strongest opportunity to navigate the effects of inflation on financial markets is through a global, multi-asset portfolio that's actively managed by a professional team of investors. Speak to a financial adviser to find out more.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

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Why it usually pays to diversify

There are several places you can choose to allocate your assets and it can be confusing. Here's what you need to know about building a diversified portfolio.

You've probably heard about the benefits of asset allocation when investing. The idea is that a portfolio blending different types of investments tends to deliver better (and smoother) returns over the long term. That's because at any one time, assets will behave differently with potentially some rising in value to offset others that are falling in price.

Asset classes

Different asset classes are often heading in different directions at any one time too. For example, when equity markets are rising, government bonds are often falling in value. Yet that's not always the case, which is why it can help to add exposure to uncorrelated asset classes, such as alternatives.

A diversified strategy tends to be less risky than one that invests in a single asset class. In the past it's an approach that delivers a smoother investment journey with less volatile swings up and down. Diversifying your investment portfolio is important to minimise your exposure to risk, as is spreading your investments within asset classes.

A diversified portfolio

Building diversified portfolios is complicated. It requires lots of tools and is best left to a professional team of investors. There are lots of ways to invest in a multi-asset portfolio. Here are some of the options available to you:

Managed fund. The most straightforward way is through a fund, for example the Omnis Managed Funds. Working with your financial adviser, you can consider your appetite for risk and other factors like your time horizon, to pick a fund that's right for you and can meet your objectives.

Diversified portfolio. Another way of investing in a diversified portfolio is by combining funds investing in different classes. At Omnis, we offer funds that cover many different asset classes and regional exposures. The Openwork Graphene Portfolios are a series of six advised portfolios with varying degrees of risk. We also provide Graphene portfolios through 2plan wealth management advisers. Your financial adviser will work with you to assess the best portfolio for you and the portfolios are designed to automatically rebalance to the original mix of asset classes every six months so that the portfolio always meets your risk profile.

Flexible portfolio. You can also access a well-diversified portfolio by investing in the Omnis Managed Portfolio Service (OMPS). The OMPS is a discretionary portfolio investing in a wide variety of asset classes through the Omnis funds, in a similar way to the Graphene portfolios. Within the OMPS, the investment team can increase or decrease the allocations to certain asset classes in line with market conditions, but always staying true to your risk profile. This helps optimise the portfolios with the aim of delivering better returns and / or reduced volatility in periods of market uncertainty.

Diversification protects your interests

Diversification can help mitigate risk and volatility by investing across different parts of the stock market, reducing the impact of any one share or asset class performing badly. For example, if one investment performs poorly over a given period, other investments may perform better over the same period, helping to reduce any potential losses.

A diversified approach is better placed to handle regional fluctuations that could affect the value of your investments and helps to navigate the effects of inflation or interest rates on stocks in a stronger position, too, through the nature of it being a regionally based way of handling different asset classes, supported by local experts.

Ultimately, a diversified approach allows you to minimise any downsides during periods of volatility, and benefit from the rewards that come from stronger market performance.

Speak to your financial adviser to find a range of investment opportunities that are right for you.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.