

WEALTH KNOWLEDGE

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CAMPBELL & McCONNACHIE

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BANK OF ENGLAND EXPECTS UK ECONOMY TO SHRINK 2% IN Q4 2020

The Bank of England froze interest rates at a record low of 0.1% amid fears the UK economy will shrink 2% in the fourth and final quarter of 2020.

The move was announced last month in response to the economic and financial impacts of England re-entering lockdown in a bid to contain COVID-19.

The Bank said:

“Spending in the economy remains well below normal and the measures taken to contain the virus will reduce spending further.

“We stand ready to take further actions if necessary to help the economy recover and ensure inflation returns to our 2% target.”

The Bank also pledged an extra £150 billion of support through buying government bonds, taking its total stock to £895bn.

The central bank buying government bonds on the global financial markets should give confidence to banks that are lending to businesses and households.

That cash injection, however, is unlikely to spark any form of V-shaped economic recovery like the one witnessed earlier this year after restrictions were lifted.

Instead, a slower economic recovery is predicted after the Bank tipped the UK economy to shrink by a record 11% for the whole of 2020.

Assuming the current restrictions are eased as planned this month, UK GDP is expected to start growing early in 2021 before recovering to its pre-virus level in 2022.

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MORTGAGE PAYMENT HOLIDAYS EXTENDED FOR UP TO SIX MONTHS

Mortgage payment breaks have been extended for homeowners who are being financially affected by the ongoing pandemic.

The announcement was made on 31 October 2020, the same day as the scheme was due to end after an initial six months.

Borrowers who have not yet had a mortgage payment holiday can ask their provider to pause repayments for up to six months.

Those who have already deferred payments can extend their mortgage payment holiday until they reach the six-month cap.

While the Government said a payment holiday will not be recorded on a borrower's credit file, interest will still accrue on what they owe.

Sheldon Mills, interim executive director of strategy and competition at the Financial Conduct Authority (FCA) said:

“It is in borrowers' own long-term interest only to take a payment deferral when absolutely necessary.

“Those that are able to keep paying, should [continue to] do so. This allows support to be targeted to those most in need.

“We are also asking borrowers not to contact their lender yet, and instead wait for further updates, including from their lenders, soon.”

The FCA also suggested that borrowers have until 31 January 2021 to submit a claim for a payment holiday to their lender.

It also said nobody will have their home repossessed as the coronavirus situation evolves in the UK.

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PENSION WITHDRAWALS SLUMP IN Q3 AS CAUTION REIGNS SUPREME

Over-55s resisted the temptation to raid large sums from their pension pots as average withdrawals fell 7% in the three months to 30 September 2020.

Figures from HMRC showed the average amount withdrawn in July, August and September 2020 was £6,700, down from £7,200 year-on-year.

A total of £2.3 billion was flexibly withdrawn from pensions in Q3 2020, a decline from £2.8bn during the same period last year.

Withdrawals increased in the three months to September, almost certainly due to financial uncertainty caused by the pandemic.

The number of over-55s accessing their pension in Q3 2020 actually grew 6% year-on-year to around 347,000, and by 2% on the previous quarter.

This goes against the grain as the number of over-55s raiding their pension pots usually peaks at the start of the tax year in Q2, before tailing off in Q3.

Steven Cameron, pensions director at Aegon, said:

“These figures show an unusual reversal in seasonal trends, but lockdown, as in all walks of life, has led to different behaviours.

“There have been concerns that over-55s facing financial difficulties during COVID-19 would look to their [private] pensions to provide a short-term boost and deplete their pension pot when fund values remain depressed.

“Pensions are designed to provide an income throughout retirement and reducing the amount of income withdrawn during a period of downturn could be important for the longevity of the pension pot.

“Those concerned over withdrawing from their pension in a volatile market should seek professional financial advice.”

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US PRESIDENT-ELECT AND COVID-19 VACCINE SEE MARKETS REBOUND

Stock markets rocketed following news of a potential COVID-19 vaccine and US President-elect Joe Biden winning the race to the White House last month.

Hopes of a vaccine revived investor appetite for airlines, hotels, energy firms and others hit hardest by coronavirus, with some shares up by more than 40%.

In contrast, companies lifted by the pandemic nosedived, representing a rare seismic shift in market sentiment based on 2021 looking considerably better than 2020.

Some of the stocks in companies hardest hit by the pandemic are still worth considerably less than they were this time last year, and might plummet again should COVID-19 fears resurface.

Longer-term, markets might also see Biden's win as positive news after he promised to overturn tax cuts for the highest earners in the US and trade wars may recede.

A weaker US dollar is also a possible consequence of Biden's victory, with the chance of fiscal stimulus being reduced, which might benefit other currencies.

Any impact on the long-term prospects of global investments might be small, but now is a good time to reassess your financial plans as 2020 comes to an end.

It might also be a good time to review financial plans which have been left untouched since the start of this year, before the pandemic and the end of Trump's presidency.

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IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change. Pensions eligibility depends on individual circumstances and pension benefits cannot normally be taken before age 55.

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