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Inflation: What do rising prices mean for us all?

Rising energy costs are one of the main factors pushing inflation towards the 8 to 10 per cent mark, and the reason why interest rate rises will remain ineffective in bringing it back down to a desired target of around 2 per cent. They aren't the right medicine for these external forces. Rate hikes can of course do some good by suppressing price rises elsewhere, but tightening must be done carefully given the potential to tip us into a recession.

While those rate hikes are slowly dripped onto the market, inflation could yield wins for some parties – shrinking the value of debt and increasing the government's tax take due to frozen thresholds. And we might all reduce our usage of polluting fuels.

But mostly, inflation is damaging. It erodes our purchasing power, devalues our savings, lands us with extortionate energy bills and can lead to weaker returns from our investments as companies bear the brunt, too. Inflation and a tightening cycle add to uncertainty about the future and depress economic activity as businesses become nervous about investing and about consumer spending. And even if inflation has largely been under control for years – Credit Suisse's 2022 study of global investment returns shows that between 2014 and 2019, out of 21 major countries, 17 had inflation rates below 2 per cent – no one can afford to disregard the threat it poses. The consequences of an inflationary spiral are too great for that.

According to energy expert Mike McWilliams at the Centre for Economics and Business Research, the price of fuel at petrol stations will fall later this year but the cost of heating our homes will stay high for years rather than months.

In the UK, house price inflation has been running rampant too. Between the start of the pandemic and February this year, the average house price in the UK rose by 20 per cent, according to Nationwide Building Society figures. And affordability has become more stretched, as price growth outstrips earnings growth. The price of a typical home is now equivalent to 6.7 times average earnings, up from 5.8 in 2019. There really isn't any mystery around the skyrocketing prices. They have been brought on by low interest rates, Help to Buy, pandemic savings, stamp duty holidays, first-time buyers anxious to jump on board before prices move further out of reach and a desire to stop throwing money away on rising rents. Supply issues are a factor too. At least, thanks to low interest rates, almost all mortgages taken out in recent years have been on fixed-rate deals, which means the current base rate hikes won't have a major impact. Yet. High house prices mean high debt.

What might help cool things down is the combined effect of the cost-of-living crisis alongside higher taxes and interest rates creeping up. Yet given the dynamics of supply and demand, what's more likely in the absence of a recession and job losses, is a slowing in the rate of house price growth rather than a steep fall. But any concern that housing wealth may be weakening can cause homeowners to start economising.

Inflation's effect on stock markets is also worth noting. Paul Marsh, Elroy Dimson and Mike Staunton at Credit Suisse have found that in deflationary times, equities deliver much higher gains compared with inflationary times, but they still outperform bonds (and cash savings) significantly during the latter times.

What can be done? - Strategies to beat Inflation

Inflation's 'team transitory' is a shrinking breed. Ever since huge stimulus packages were announced in 2020, and the effects of supply chain issues became clear, central bank inflation predictions have consistently undershot reality – and that was before Russia's war on Ukraine and all it entails. In February 2021, for example, Federal Reserve chair Jerome Powell said that it could take three years for the US to reach its 2 per cent inflation goal. Further back, in late 2020, the Fed had suggested it would not raise rates until the end of 2023. But US inflation had hit 7 per cent by December 2021 and the Fed raised rates last month, with officials hinting that six more rises could take place this year.

Last August, meanwhile, the Bank of England forecast the UK consumer price index would peak at 4 per cent in 2022. By the end of last year it had already hit 5.1 per cent. The Bank now anticipates that inflation will hit 8 per cent in June – exacerbated by Russia's invasion of Ukraine, which has caused an energy supply shock and put further pressure on global supply chains. No one knows how price growth will play out, but in the near term it poses a significant threat to the value of your savings. If inflation does continue to prove persistent, the simple truth is that no asset is guaranteed to protect you. However, research suggests that so-called 'real assets' – assets underpinned by physical material – have a better track record of holding their value in times of high inflation than many others.

But real assets are a broad church: from commodities to property to infrastructure and even luxury items, all of these assets have different price drivers. And associated equities, such as mining, energy and housebuilding companies, can be as susceptible as any other company to idiosyncratic issues and changes in overall market sentiment, which is why we recommend holding a diverse and regularly reviewed portfolio of different types and styles of investment.

New Tax Year – New Tax Rates and Allowances

As we have now begun the new financial year, despite very little in the way of changes, as usual, we are providing the current rates and allowances for residents of England. (rates of tax in Scotland, Wales and Ireland may vary)

Income Tax
The personal allowance – the amount below which no income tax is payable remains at £12,570, and the higher rate tax threshold is still £50,270. Additional rate is payable on taxable income over £150,000. As announced last year, these rates will remain fixed until April 2026. This means that as wages increase, more and more people will gradually fall into the higher rate bands. There is no change to tax rates.

The dividend allowance remains at £2,000, and the Personal Savings Allowance stays at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers, which is the amount of savings interest that can be received without tax being due. Tax rates on dividends have increased to 8.75% for basic rate 33.75% for higher rate and 39.35% for additional rate taxpayers.

National Insurance
Rates have increased to 13.25% for employees and 15.05% for employers, with the increase imposed to cover the social care levy. From July, the level at which NI contributions are paid by employees will increase from £9,100 per year to £12,570.

Capital Gains Tax
The CGT annual exemption is fixed at £12,300, until April 2026, and CGT rates are unchanged at 10% for lower rate and 20% for higher rate taxpayers (18% and 28% for gains made on sales of residential property that do not qualify for relief as your private residence).

Inheritance Tax
The IHT Nil Rate Band and Residence Nil Rate Band are unchanged at £325,000 and £175,000, with the level at which the latter allowance is tapered remaining at £2M. Rates remain at 40%.

Pensions
The pension lifetime allowance has also been frozen at £1,073,100 until April 2026. The annual allowance for contributions remains at £40,000 and will not be tapered until 'adjusted income' exceeds £240,000. Anyone having accessed pensions flexibly still has a reduced allowance for contributions limited to £4,000.

ISAs
The standard annual ISA limit stays at £20,000, with the Junior ISA allowance still at £9,000.

Corporation Tax In 2023 the main corporation tax rate will increase to 25% but for companies with profits of no more than £50,000 the rate will remain at 19%. There will be a tapering of the rate for companies with profits between £50,000 and £250,000.

Stamp Duty Land Tax The nil rate band is back to £125,000, with rates above this tiered between 2% and 12% for property over £1.5M.

How Risky Is Cryptocurrency?

The Financial Conduct Authority has repeatedly warned over the dangers of cryptocurrency and in October 2020 banned the sale of certain high-risk types of this investments to retail investors. But why is it so risky?

One reason for the heightened level of risk is the lack of protection. Most UK bank deposits are covered by schemes such as the Financial Services Compensation Scheme, but this is often not the case for cryptocurrency investments. So, if and when a cryptocurrency exchange goes bust, there is no guarantee, and in reality, little chance that you will get your money back.

There is also a worrying lack of security. Cryptocurrency itself is extremely difficult to hack and the public ledger almost impossible to alter, but this is not true for cryptocurrency exchanges. As of 2021, more than 30 worldwide exchanges had been hacked or disappeared entirely – most high profile of these include Tokyo's Coincheck, which lost in excess of $500m in 2018.

There also tends to be extreme volatility, in fact, this is one of the defining factors of cryptocurrency. On 18 April 2021, bitcoin posted its biggest one day drop in two months, falling 25% to $55,000. A week later it rose almost 10% in 12 hours – timing these movements is impossible and can have a massive affect on your capital (positive or negative").

Double-spending is what happens when a blockchain network is disrupted, or the cryptocurrency is essentially stolen. Like all data it is subject to hacking, but in this case you have no protection whatsoever. A "thief" essentially sends a copy of the transaction data to make it look legitimate, or they might delete the transaction altogether. Although this may be relatively rare, it can and does happen and there is no protection or comeback whatsoever.

Of course it is possible to make money with cryptocurrency, but like any relatively new technology, there are a lot of pitfalls and risks. One major concern is that the market is heavily dependent on sentiment: how investors and traders feel about the future. This means that unlike stocks and shares, there are no earnings reports, profits or revenues for investors to point to as fundamental value. It is almost entirely sentiment driven.

So while the many reports of success and huge overnight gains often reported may well be true, there are also some horror-stories and massive losses of all of the capital are not unheard of. We believe there not only are likely to be issues with volatility, but there may also be problems with transparency, custody, liquidity and diversification, so we can only reinforce the regulator's opinion that Cryptoassets are not likely to be suited to most individual retail investors.