Shojin

Looking Ahead with Cautious Optimism

How are UK investors combatting high inflation, rising interest rates and planning for the future?

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Investors in the UK have had to navigate choppy waters over recent years. No sooner had the complexities and challenges of the Covid-19 pandemic subsided than the cost-of-living crisis emerged, triggering additional turbulence across the financial markets and prompting fresh questions as to how investors were managing their money.

The shifting economic landscape has been compounded by an uncertain political one. A year ago, Liz Truss replaced Boris Johnson as the UK Prime Minister and, along with her new Chancellor, Kwasi Kwarteng, delivered the now infamous mini-budget. It sent another shockwave through the markets, with both Truss and Kwarteng paying for the ill-judged fiscal statement with their political careers – it meant a new Prime Minister and Chancellor and more complications for investors to consider.

Moving into 2023, two prevailing factors have dominated the headlines: high, sticky inflation and rising interest rates. While inflation has started to fall from its double-digit highs, its retreat has come at a slower-than-expected pace, still residing well above the Bank of England's 2% target. As a result, the UK's central bank has continued a hiking cycle that dates back to December 2021.

Through it all, investors have needed to carefully consider how best to manage their investment portfolios, balancing immediate challenges against the short-, medium- and long-term predictions about how the UK economy – and various financial markets – are likely to perform in the future.

To allow us to understand how investors have been handling this challenge and, moreover, to explore how they intend to manage their investments in the year to come, Shojin has commissioned new, independent research. More than 900 UK investors were surveyed to shine a light on their sentiments towards key macroeconomic trends, how they have responded, and what they have planned for the next 12 months. We share the findings of this research in this report.

Rate Increase

Over the past 19 months, the Bank of England has voted on 14 consecutive occasions to increase the base rate, taking it from an all-time low of 0.1% to its current level of 5.25%. More hikes are predicted in the months to come.

Key findings at a glance

Between 5th and 11th September 2023, commissioned by Shojin, leading market research agency Opinium conducted an independent online survey of 964 UK adults. At the time of the survey, all had investment portfolios valued in excess of £10,000 – this includes all assets from bonds and currencies to commodities and stocks and shares but excludes any savings or property that is used as their primary residency.

Here are some of the key findings:

Just 21% of UK investors believe the Government will hit its targets of bringing inflation down to under 5% by the end of 2023.

But over two-fifths (43%) are confident that interest rates will come back down next year, with 57% saying that they think the worst of the economic turbulence from the past 18 months has now passed.

Fewer than two in five (39%) are optimistic about the state of the UK economy, with 62% saying they are worried about the Government's handling of it.

Two-thirds (65%) of UK investors have altered their investment strategies over the past 12 months as a result of high inflation and rising interest rates – 48% say that despite these economic factors, their investments have still performed well.

Looking ahead, 62% of UK investors plan to adopt a low-risk investment strategy over the coming 12 months, compared to 23% who say they will pursue a high-risk strategy. Either way, just over half (53%) say their strategy will not alter greatly from the past 12 months, whereas 38% will diversify their investments in the year ahead.

34% intend to invest in real estate in some capacity during the next year; 57% will focus on investments that can offer set or guaranteed returns within an agreed time period; and 67% will increase their use of ISAs.

40% foresee themselves relying more on mobile or online investment platforms in the next 12 months – this figure rises to 66% among investors aged 18-34.

Tackling inflation and interest rates

At the start of 2023, Prime Minister Rishi Sunak and Chancellor Jeremy Hunt set out their five key priorities for the year. Top of the list was halving inflation – at the time, the rate of inflation was 10.1%, which meant bringing the figure down to 5% or below by Christmas.

As of August 2023, the Office for National Statistics' latest Consumer Price Index showed that inflation stood at 6.7% down just 0.1% from the previous month. The slow rate of decline underscores the uncertainty regarding whether Sunak and Hunt will be able to achieve their 5% target.

Shojin's survey of UK investors showed that just a fifth (21%) believe the Government will achieve its inflationary goal. More generally, the research found that less than two in five (39%) UK investors are currently optimistic about the state of the UK economy, with 62% saying they are worried about the Government's handling of it.

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But there was also a sense that economic conditions will improve in the coming 12 months. Most (57%) of the UK investors polled said that they think the worst of the economic turbulence from the past 18 months has now passed, while two-fifths (43%) are confident that interest rates will come back down next year, suggesting that inflation will have been brought under greater control.

Faith in Government

Evidently, while faith in the Government is shaky – telling, perhaps, in the build-up to a general election late next year – there is a degree of optimism that simpler times lie ahead.

For now, Shojin's research has indicated that most investors have responded proactively to the macroeconomic challenges that have defined the past year. Two-thirds (65%) of respondents said they have altered their investment strategies over the past 12 months as a result of high inflation and rising interest rates – and 48% say that despite these economic factors, their investments have still performed well.

Balancing risk

Having established the current sentiment of UK investors towards the Government, economy and their own portfolios, Shojin's study sought to ascertain how investors plan to manage their investments in the coming year. Central to this is the question of risk, an ever-present consideration of how to balance potential exposure to risk against the potential for positive returns.

We found that just over three-fifths (62%) of respondents plan to adopt a low-risk investment strategy over the coming 12 months. This is a sign, perhaps, of the economic and political uncertainty that still hangs overhead, causing investors to adopt a more cautious approach.

By contrast, 23% of UK investors intend to pursue a high-risk investment strategy in the next year. Those with between £500,000 and £1 million worth of investments, or over £1 million worth of investments, are more likely to take a high-risk approach, with the percentages rising to 49% and 51% respectively among these groups.

Whether considering a low-risk or high-risk strategy, around half (53%) of UK investors say their investment strategy for the next year will remain largely the same as it has been for the past year.

Moreover, diversification is likely to remain another important trend. Almost two in five (38%) UK investors say they will diversify their investments in the year ahead – something we have seen throughout 2023 as investors look to develop portfolios that are well placed to manage the dual threats of high inflation and rising interest rates.

38% UK investors say they will diversify their investments in the year ahead

Attractive assets and investments

Beyond risk, Shojin's survey delved into specific assets and investments that are garnering interest among UK investors.

For instance, we found that over a third (34%) of respondents plan to invest in property in the next year – this includes real estate investment trusts (REITs), fractional investment through P2P platforms or investing in property developments, as well as more traditional second home or buy-to-let investments.

The data underlines the enduring appeal of UK bricks and mortar as an asset class among investors. Meanwhile, the fact that 57% of investors said they will focus on investments that can offer set or guaranteed returns within an agreed time period suggests that debt-based property investments – such as peer-to-peer finance for development projects – could prove particularly attractive.

ISAs are also set to be popular among UK investors in the year ahead. As many as 67% of the respondents said they will increase their use of ISAs in this period, with higher interest rates creating new opportunities for investors to use this type of savings product within their investment portfolio.

ISAs come in many forms, including traditional ISAs, stocks and shares ISAs, and innovative finance ISAs (IFISA). Previous research from Shojin, conducted in Q1 2023, revealed that while 93% of investors were familiar with a regular ISA (45% had one), and 91% knew about stocks and share ISAs (29% had one), just 45% had heard of the IFISA, with a mere 6% holding one.

With our new research highlighting that greater investment into ISAs will likely be a key financial trend for the coming year, it is important that investors understand the variety of ISAs available to them. Each has its own attractive elements, so taking the time to research different products could be worthwhile for those considering upping their ISA commitments.

Another appeal of ISAs – and indeed some forms of real estate investment, thanks to platforms like Shojin – is their accessibility. Being able to make and manage investments online is increasingly important, and our latest research highlighted this once again; 40% of UK investors foresee themselves relying more on mobile or online investment platforms in the next 12 months – this figure rises to 66% among investors aged 18-34.

Emerging trends in technology
Technology has played a key role in removing barriers to entry for investors looking to a more diverse range of assets and markets. Evidently, we can expect this trend to continue in the near term.

The thoughts of our CEO

"Inflation and interest rates have continued to dominate headlines throughout 2023. From an investment perspective, there is no question that these have both been important factors in determining how people manage their money, and our research shines a light on this topic.

"Clearly, UK investors are not entirely convinced that inflationary pressures have eased just yet. Nor are they particularly confident in the current Government and how it is handling the economy.

"Yet, amidst these concerns, it is positive to note that many investors believe we are through the worst of the economic turbulence, and there is confidence that interest rates will fall next year. Moreover, investors have been proactive in adapting their investment portfolios to the challenges presented by high inflation and higher interest rates, with many more investors saying their investments have performed well this year (48%) compared to those who say they have performed poorly (12%).

"Although it consumed a prolonged period, we have to accept that the past 15 years of rock-bottom interest rates was an exception, not the norm. Historically, financial markets have been accustomed to a base rate of anything between 5% and 10%, so we simply need to shift our expectations where rates are concerned and recalibrate investment decisions in light of a high cost of borrowing.

"This will take time, though. Looking to the year ahead, we can expect many investors to remain risk-averse in their approach. Further, diversification will remain a key theme – investors will look to spread money across different assets and markets to ensure they are not exposed to too much risk in any single area.

"Real estate has emerged as a popular asset, likely the result of its long history of delivering strong returns even at times of economic turbulence. Essentially, in the UK, the shortage of available property remains a critical issue, and the imbalance between supply and demand is why many investors have faith in the fundamentals governing the property market.

"ISAs are also likely to become more attractive as rates improve. Again, this would appeal to those looking for lower-risk options, but it is important that investors take the time to research all the different ISAs available, including IFISAs – there is more variety here than often appreciated.

"Ultimately, looking to the year ahead, there is a sense that 2024 will bring a little more calm and predictability than the past three or four years. But investors must continue to be proactive, exploring all the different options available to them (tech is opening new doors all the time), and assessing which of those options best suit their particular needs, risk levels and long-term goals."

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