

It may be time to invest your cash

Is your wealth protected from the damaging effects of inflation?

Many people underestimate the damaging effect of low interest and high inflation on their cash savings. A continued period of low interest rates on cash savings and rising inflation could pose a real risk to savers in 2022, even if the Bank of England (BoE) moves to increase interest rates further in the coming months.

Savers with large amounts of money sitting in cash should not be lulled into a false sense of security if interest rates creep up, because of the threat of higher inflation throughout 2022. The damaging effects of high and rising inflation will likely more than wipe out any uplift a higher interest rate will give to the value of cash savings. Currently, 8.6 million consumers hold over £10k of investable assets in cash^[1].

INTEREST 'BASE RATE' INCREASE

Inflation is expected to average over 4% this year, peaking at close to 5% in the spring^[2]. The BoE may look to dampen the effects of soaring prices by further increasing the interest 'base rate'. While this may offer some relief if passed on to savers, the average easy access savings account is currently sitting at just 0.19%^[3] and any upward change is expected to be small.

As the economy continues to recover from the COVID-19 pandemic last year, we are experiencing a sharp rise in the cost of living. During a period of high inflation people will notice a dramatic decrease in their purchasing power over time, particularly if their wages don't keep pace or if they have savings in cash.

DAMAGING HIGH INFLATION

The threat of inflation this year and beyond could far outweigh any small changes in interest rates for

those with large amounts of money in cash savings. Following many years of low inflation, people may have forgotten how damaging high inflation can be. But in the coming months and years, savers should think carefully about where they put any additional cash that is not needed in the short term.

For money beyond your emergency fund, you may want to consider investing, which offers the potential for inflation-beating returns. If appropriate to your particular situation, you should be prepared to take some risk to preserve the value of your money if inflation continues to eat away at the value of your cash in savings accounts. We are best placed to recommend the best investment option based on your attitude to risk. ■

CONCERNED ABOUT HOW INFLATION IMPACTS ON YOUR SAVINGS?

After years of staying relatively low, it looks like inflation is on the up. So what does that mean for your money? To discuss how to mitigate the impact of inflation on your financial plans, please contact us – we look forward to hearing from you.

Source data:

[1] <https://www.fca.org.uk/publications/corporate-documents/consumer-investments-strategy>

[2] <https://obr.uk/overview-of-the-october-2021-economic-and-fiscal-outlook/>

[3] <https://moneyfacts.co.uk/news/savings/savings-rates-continue-to-rise/>

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.