THE REPUTATIONAL RISKS OF THE COST OF LIVING CRISIS

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The reputational risks of the cost of living crisis

INTRODUCTION BY BEN MONTEITH, COMMUNICATIONS

The cost of living crisis has the potential to create greater reputational risks to individuals and organisations than the COVID-19 pandemic.

According to a survey from the Financial Conduct Authority in October, one in four (24%) UK adults were either in financial difficulty or would fall into trouble if they suffered a financial shock. 7.8 million people were finding it a heavy burden to keep up with their bills – up by around 2.5 million since 2020 (2020 not being a year many of us would associate with financial stability).

One of the most substantial differences between now and the pandemic – aside from an economic bruising incurred from keeping us afloat among lockdowns – is that Covid forced people together as a community (while keeping them physically apart). It fostered a sense of solidarity and the idea that, aside from a few bad eggs, we were all in it together.

The cost of living crisis however, is unlikely to do that. It will force people to come together physically, with some public and private buildings being turned into 'warm places', but it has the potential to cause rifts in society, with the online conversation around it firmly placing responsibility on the Conservative Party and demanding an election. According to a study by the University of Kent and Belong – The Cohesion and Integration Network - the UK has become more divided since the start of the pandemic. In May 2020, 43% perceived growing unity in the country and 32% growing division. Fast forward to June 2021, only 16% perceived growing unity compared to 64% growing division. At the same time, 67% perceived divisions between wealthier and poorer demographics.

> Covid fostered a sense of solidarity and the idea that, aside from a few bad eggs, we were all in it together. The cost of living crisis is unlikely to do the same.

24%
UK adults were either in financial difficulty or would fall into trouble.
* Financial Conduct Authority
67%
of respondents perceived divisions between wealthier and poorer demographics in a June 2021 survey.
* University of Kent and Belong – The Cohesion and Integration Network
39%
says addressing the rising cost of living is the top priority for their country's future
*SEC Newgate ESG Monitor 2022

Societal divisions are clearly more likely. Employees are more likely to want support from their employer – whose business is more likely to be on shakier ground. Customers and consumers will also be watching their wallets amidst growing concern at how things are shaping up.

A strong brand purpose has never been more important. Brand purpose can often come across as a buzzword and has more than its fair share of detractors as a concept, but in amongst a narrative that has the potential to pit employees against employers, society against brands, neighbours against politicians, **it's never been more important to have a clear idea of your role among your communities – and to act and speak out on their behalf.**

According to SEC Newgate's Global ESG Monitor 2022, a survey of 12,000 people across 12 countries, nearly two in five people (39%) said that addressing the rising cost of living is the top priority for their country's future. 78% say companies have a responsibility to behave like good citizens and consider their impacts on other people and the planet, while 71% agree companies should make a start on ESG action, no matter how small.

While the cost of living presents communications challenges, it is not itself one but rather a human crisis. Brands who act, not just speak, will earn goodwill - because they're doing the right thing, not just saying it.

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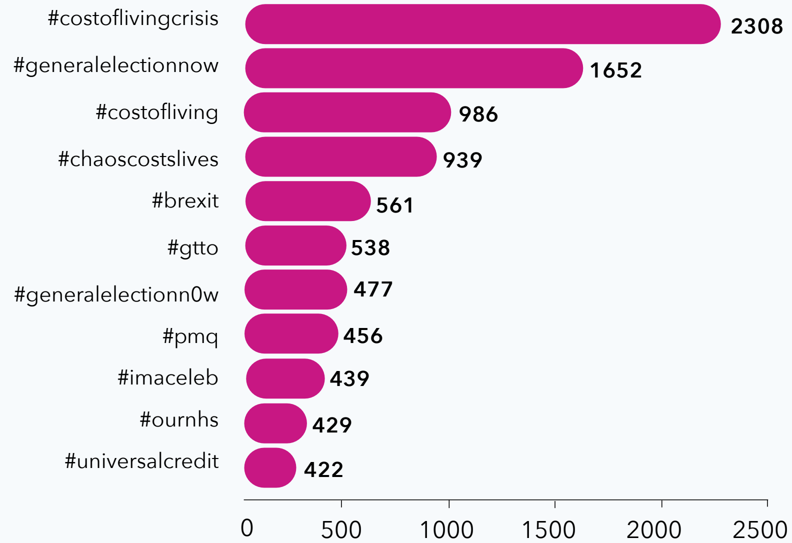
COST OF LIVING'S PLACE IN THE NATIONAL CONVERSATION

by Tom Flynn and David Linnett, Digital

The conversation is, as you'd expect, vast across the board: the cost of living crisis generally, warm banks (or 'warm places'), food banks and the fuel crisis. And what we're seeing is a significant trend across all.

The hashtag #GeneralElectionNow is being heavily used across every topic, with the majority of other hashtags on relevant topics also mentioning the Conservative government in a negative way. That doesn't necessarily mean only good things for Sir Keir Starmer's Labour: the most shared link by far when it comes to the cost of living crisis over that period, is a link to the 2019 General Election manifesto from Jeremy Corbyn's Labour party.
What's also cutting through clearly is brands' work to support their communities throughout the cost of living crisis. News stories that see the likes of Celtic Foundation, the football club's charity arm, donating money to help people with groceries and fuel, are receiving high levels of positive engagement, reflecting the goodwill generated by these gestures. Contrast that with the government's support, including its various schemes to support citizens with their energy bills, and it's striking how absent this is in the online conversation.

Of course, the Twitter picture is often the most vocal and not frequently the most representative. But what it does show is how closely associated the government is to the worst of the cost of living crisis – and how brands that are actively intervening are seeing their engagement amplified much further.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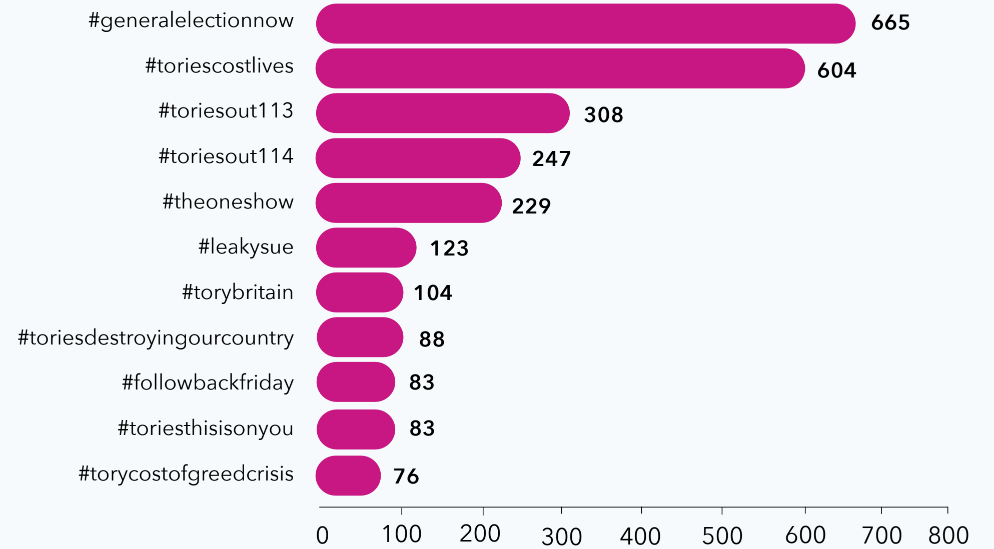
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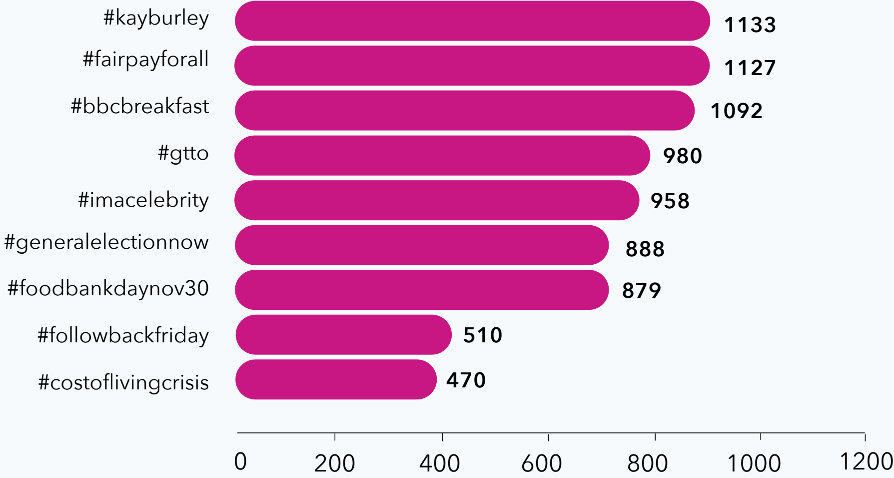
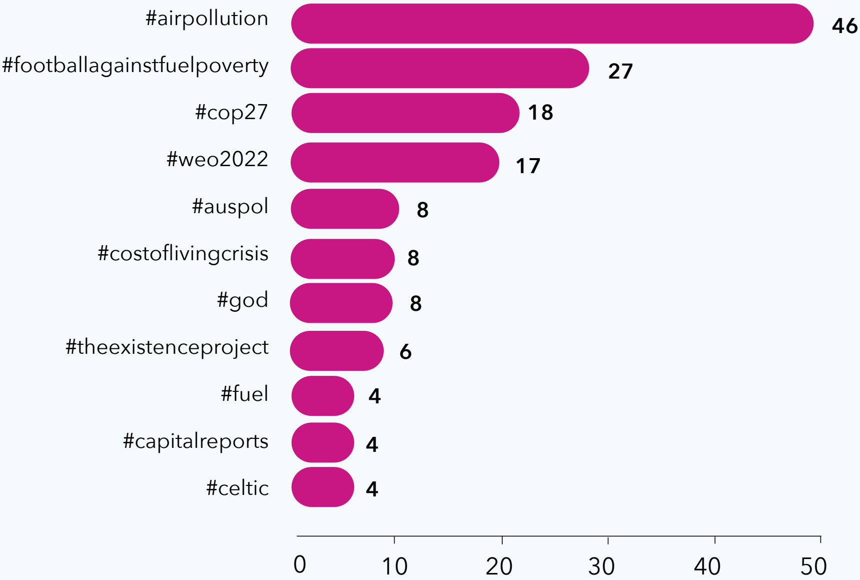


FUEL CRISIS



BLAME GAME OVER THE COST OF LIVING CRISIS SET TO DOMINATE NEXT ELECTION

by Fraser Raleigh, Advocacy National

The cost of living crisis has become the defining political issue in the run in to the next general election.

Inflation has soared to 10.1%, far above the 2% target set for the Bank of England, which has in turn raised the base rate to 3% - the highest level since the start of the 2008 financial crisis. The Office for Budget Responsibility says that the UK is already in recession.

In response, the Autumn Statement implemented what Chancellor Jeremy Hunt called "eye wateringly difficult" decisions on tax and spending. Income tax thresholds will be frozen, dragging more people into both the 20p and 40p tax brackets, with National Insurance thresholds also kept at current rates. Universal support for spiralling energy bills will also end sooner than planned, with targeted schemes for homes and businesses replacing the current price guarantees next April. Local authorities will also be permitted to increase council tax by more than recent years, putting extra strain on households.

The worsening economic outlook has increased concerns for businesses and individuals. Firms will receive some relief from rising business rates, but still face significant supply chain pressures and labour shortages, which have increased costs. The government has promised cost of living payments for those most in need and will increase both benefits and pensions in line with inflation, as well as upping the National Living Wage and capping social rent increases.

Yet while these commitments are expensive for the government, **the challenge is whether they help struggling families do more than tread water and who they see as responsible.**

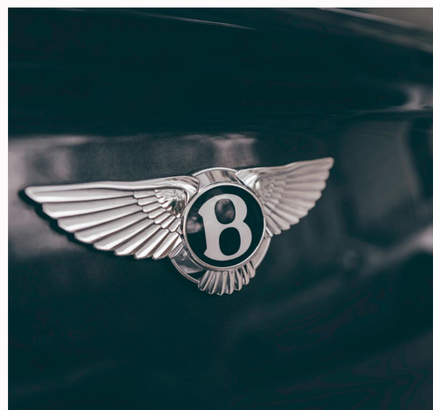
Labour puts the blame firmly on the Conservatives, criticising its economic management over its 12 years in office and arguing it is out of ideas. New Prime Minister Rishi Sunak – who warned publicly about the unfunded tax cuts that brought down his predecessor Liz Truss – points to his record during the pandemic and argues that the UK is weathering global storms caused by Covid and the war in Ukraine. Just the day after Russia's invasion, well before the impacts began to be felt, Sunak – then Chancellor – warned of "a 'great slowing down' across the world that began even before the Covid pause." And while neither side is particularly keen to bring Brexit into the discussion, business leaders have been increasingly vocal in criticising the added friction and complexity that being outside the single market is causing.

Amid all this, the key political question ahead of the next election was identified by Shadow Chancellor Rachel Reeves in her response to the Autumn Statement. Voters, she said, will ask themselves: Are me and my family better off with a Conservative Government?"

The battle is on for Labour and the Conservatives to convince a worn-out public - preparing for the cost of living to get worse before it gets better – how to answer.

The worsening economic outlook has increased concerns for businesses and individuals.

Many brands across the sector are well placed to respond swiftly and effectively to this environment, given the widespread evolution of the industry from conspicuous to conscientious.



HOW WILL THE COST OF LIVING CRISIS IMPACT ON LUXURY BRANDS?

by Debbie Standen, Communications

The luxury sector is something of an anomaly in this discussion given its audience. High net worth individuals (HNWIs) tend to be more immune to the economic factors driving the current crisis and, as such, luxury brands are more insulated from its impact, in commercial terms at least. The sector is certainly not recession-proof, but it does tend to fare better during a downturn. While the 2008-9 recession shaved off 9% of the value of the luxury goods market, it was one of the fastest to recover globally.

That said, it is not immune to the context surrounding it and that most certainly has an impact from a communications standpoint. The autumn PwC Consumer Sentiment Survey saw sentiment at a lower level than at any point during austerity measures, at -44 points. And the backlash to Kwasi Kwarteng's proposed cut to the higher rate of tax sent a very clear message. Wealth – and the implication of an excess of it – is a thorny subject.

Many brands across the sector are well placed to respond swiftly and effectively to this environment, given the widespread evolution of the industry from conspicuous to conscientious. Increasing global attention to ESG, along with the attitudes of newer generations of wealth and rise of 'conscious capitalism', have been spurring significant change over recent years.

At the Spears 500 event this September, the message from the Experience of Luxury panel was clear: the emphasis is now on making thoughtful, meaningful purchases and responsible investments over being seen to spend large amounts of money. Speakers from across retail, hospitality and real estate spoke of client and stakeholders' greater interrogation of value, particularly in the story behind a company or specific product.

In a clear sign of the times, this June the Financial Times' How To Spend It supplement - the international voice of luxury - rebranded to HTSI. Its editor, Jo Ellison, explained the move to be a subtle acknowledgement of changing times and priorities, and the desire for the title to reflect a world with deeper sensitivities. The acronym is also intended to allow readers freedom to interpret the "S", whether that be how to style it, how to save it and so on, and is the boldest statement from the title following its special issues like How To Spend It Wisely and How To Give It.

This is being seen across the media. Editors of the world's top tier press want to bring their readers stories that inspire, provoke thought and advocate responsible corporate behaviour. And interrogation of ethical credentials is standard practice too, making sure they reflect those of the title itself.

In the influencer and ambassador spaces, quality over quantity is the direction of travel for both brands and personalities. Partnerships are fewer and very carefully selected, and are long term and founded on authentic connections.

The cost of living crisis is likely to amplify sensitivities and accelerate these changes further as luxury consumers, media and brands look to have a meaningful place in a landscape of austerity.

Editors of the world's top tier press want to bring their readers stories that inspire, provoke thought and advocate responsible corporate behaviour.

ENERGY COMPANIES IN A PRESSURE COOKER ENVIRONMENT

by Imogen Shaw, Advocacy National

Shortly after his appointment as Chancellor of the Exchequer in October, Jeremy Hunt announced that the government's Energy Price Guarantee, which was supposed to apply for two years – until October 2024 - will now only remain in place until April 2023. Much has changed since then, including the Prime Minister, and the Chancellor's Autumn Statement on 17 November continued this trend.

Many renewable energy generation companies had expected an extension to the Energy Profits Levy on supernormal profits from oil and gas companies and had anticipated that they might be brought within its scope. However, the details of the new Electricity Generator Levy surprised many in the low-carbon electricity industry, given that the tax will be levied at a rate of 45% (higher than that for oil and gas), and that renewable energy generators are set to receive no exemptions for investment, unlike their oil and gas counterparts.

Many renewables companies have spoken out in the press, querying how the government will achieve its aim to decarbonise the UK power market by 2035, given the confusing signal that introducing a windfall tax on renewable energy generation profits sends to investors at a time when the government wants to see investment in low carbon generation ramp up.

Some, including ScottishPower CEO Keith Anderson, have highlighted that their organisations are not actually making windfall profits at the moment, because they pre-sold their power output in previous years at prices well below today's high wholesale prices.

The regulatory environment has suddenly become more complicated for renewable energy generation companies and this poses challenges both in terms of their engagement with politicians and policymakers, but also in terms of their communications to investors – both directly, and via the signals they send in the media.

Of course, it is not just energy generation that is affected by the ongoing gas price crisis – the supply side has its own challenges.

Recently, some energy suppliers have been accused in the media of attempting to force vulnerable households to switch to prepayment electricity and gas meters as consumers fall behind with regular payments. Others have written an open letter expressing their concerns about elements of the government's new Energy Prices Act and the extensive new powers it grants ministers in relation to the regulation of the sector. These companies fear that parts of the Act could stymy investment in the UK's energy sector, at a time when it should be increasing at an accelerated rate.

This is all going on against a backdrop of an immensely high-pressure situation. Companies need to deliver clear customer communications and navigate a regulatory environment in flux.

The risk of a reputational crisis is only one misguided email to customers or disgruntled employee letting off steam away. That said, energy companies who are fully engaging with their communities, including speaking up and out for their stakeholders, can emerge from these engulfing crises with their reputations intact and the opportunity to further influence change in the market.

THE COMMERCIAL REAL ESTATE MARKETS' ONCE-GENEROUS WELL LOOKS LIKE IT MAY DRY UP

by Polly Warrack, Communications

"Water, water everywhere and not a drop to drink": Samuel Taylor Coleridge's famous words from his poem, The Rime of the Ancient Mariner, may have initially told the story of a sailor on his way home from a long voyage, but they have taken on new relevance for those in commercial real estate in recent months.

After a promising first quarter, there has been an abrupt drop off in transactions. In fact, Q3 transactions in Europe in 2022 were down some 16% on the same period last year according to CBRE. **However, unlike in the previous downturn when a lack of liquidity was the definitive issue of the day, there is now significant liquidity and stores of dry powder in the market - yet there doesn't seem to be a deal to be done.** So, what is going on and with all that liquidity in the market, why is the market so parched of deals?

Most would agree that the primary issue is uncertainty in the market caused by higher interest rates and the impact that this is having on valuations. The relationship between commercial real estate and interest rates is a difficult one to judge. On the one hand, property can act as an inflation hedge. Inflation will drive rental growth, which will help current values. However, as always, the reality is far more nuanced, and that inflation needs to be affordable or else valuations will suffer.

The relationship between commercial real estate and interest rates is a difficult one to judge.

While some increases in costs can be budgeted for, it is important to remember that inflation affects all the various costs of a business, with energy in particular posing a serious issue in the coming months. Indeed, according to a recent Columbia University study, real estate values have a close negative correlation to real interest rates; higher real rates mean lower values. We have already started to see this impact the market. In September, UK commercial property values fell 2.6% according to index provider MSCI, while well-known landlords such as Shaftesbury and Capital & Counties began writing down their central London portfolios.

Inflation affects all the various costs of a business, with energy in particular posing a serious issue.

All of this means that many would-be sellers are reluctant to put their assets in the market and accept a lower valuation, while would-be purchasers are reluctant to put that dry powder to use unless they can get a great asset at an attractive price.

How will this impasse end? If there isn't a climb down in rates or a resolution in Ukraine, then it will likely be through forced sales. This sounds ominous, but they can reprice the market and allow things to move on. The reality is that we can adapt to most circumstances - we can grow or shrink our expectations, cut our cloth or not, and find a new normal – but what we can't be is Schrodinger's cat. We need to find a way to correctly and fairly value assets so that transactions can get moving and we can find the next semblance of normality.

MOVING BEYOND PLACEMAKING IN RESIDENTIAL PROPERTY

by Roy Turner, Communications

The spectre of inflation and rising interest rates haunts residential property. Average annual inflation is predicted to outpace annual average wage increases until 2024, with household incomes declining in real terms at a level not seen for 50 years. But how will this impact the residential sales and rental markets?

In England alone, 6.8 million or 28% of homes are owned with a mortgage. Consequently, mortgage rate increases have started to throttle demand. New buyer enquiries fell for the sixth consecutive month in October to levels comparable with those seen during the pandemic and the financial crisis of 2008, according to the Royal Institution of Chartered Surveyors.

The build-to-rent (BTR) market has soared in recent years in contrast to the fortunes of private buy-to-let (BTL) landlords. However, BTR faces headwinds with inflation boosting build costs and renters squeezed by the cost of living crisis. But BTR's outlook remains positive, with BTL contracting as pressures force landlords to sell up, while demand for rental properties rockets amidst the post-pandemic surge of returning renters and stymied first-time buyers. The emphasis will shift to more affordable BTR in well-connected city locations offering economies of scale for operators.

In England alone, 6.8m or 28% of homes are owned with a mortgage.

Those operating in residential property are in a more highly scrutinised environment than ever, balancing the needs of investors and shareholders with those of the people whose homes they're building and managing (as well as employees, who may be facing their own worries on the security of their home).

While placemaking is an increasingly important aspect of residential portfolios – from individual BTR developments to city centre regenerations – **a new focus on the social aspect of ESG may come to the fore, including an increased demand for affordable housing and community living.**

INCREASED TO TACKLE INFLATION, INTEREST RATES ACT AS THE GREATEST PRESSURE ON COST OF LIVING

by Vanessa Chance, Communications

The cost of borrowing money has a huge impact on economic confidence. When inflation started to rise earlier this year, the Bank of England increased interest rates in order to reduce spending, thereby reducing inflation. It was a shock to the system after years of historically low rates and lenders were quick to increase the cost of borrowing both to individuals and businesses. This has been exacerbated by the recent market turmoil during Truss's premiership.

As the markets lost confidence in the UK economy, lenders had to price in the greater risk of default, which further increased the cost of borrowing. Some lenders withdrew products from the market, which left borrowers with less choice and less competitive products.

The most significant impact has been on the cost of mortgages. Home ownership is a key pillar of the UK economy and, as previously mentioned in this report, almost a third of homes are owned with a mortgage. Residential fixed mortgage interest rates have increased by up to 2.16% within a month's time-frame, which means the cost of a home has increased by over £120 a month on average.

For landlords who own properties with a mortgage, the increase is even higher - interest rates have gone up by up to 2.85%. Meanwhile, **Defaqto has found that several lenders have also increased their fees for Buy to let (BTL) mortgages. Fee increases range from £30 to £1,999** more than they were back in August. Fees for a BTL mortgage tend to be higher than residential mortgages due to the additional risk of the lending being reliant on rental income, even more so now with the uncertainty of the markets, lenders are passing on the additional costs with higher interest rates and higher fees. Landlords in turn, have passed this increase on to their tenants, pushing up the cost of renting for many.

Loans and credit card borrowing has also become more expensive. For those with outstanding balances on credit cards not on fixed deals, some lenders have simply increased their variable interest rate, so the cost of the debt has become more expensive for the consumer. However, there are still some 0% balance transfer offers, two cards offer a duration of 34 months, and several cards offering a 0% purchase offer for 24 months.

The cost of living has become more expensive because of the Bank of England rate increase. The cost of a home – be it mortgaged or rented – has increased, the cost of buying goods on credit has increased and the cost of any old debt has increased. UK consumers are more squeezed than ever, due to the very measure that was intended to reduce inflation.

The cost of living has become more expensive because of the Bank of England rate increase.

All data quoted is sourced from Defaqto, the independent financial information and ratings business, on 25 October 2022.

55
BV14

78%

say **companies** have a **responsibility** to behave like good citizens

* SEC Newgate ESG Monitor 2022

1 in 2

have used or **avoided** a product/ service in response to an **ESG issue** they care about

* SEC Newgate ESG Monitor 2022

+2.16%

Up to 2.16% increase within a month on residential **fixed mortgage interest rates**

* Defaqto

COST OF LIVING CRISIS SHOWS NEED FOR FASHION RETAILERS TO EMBRACE ESG BEYOND ENVIRONMENTAL SUSTAINABILITY

by Imogen O'Rorke, Communications (Green & Good)

Fashion retailers have been wrestling with falling revenues since the Covid crisis bit. A larger number of listed fashion retailers have been reporting profit downgrades, whether bricks-and-mortar or ecommerce based. That's been compounded by Britain's deepening cost of living crisis and inflation hitting a 40-year high at 10.1% in September. New research from Ankorstore's first Summer Retail Trend Report shows 74% of retailers fear the deadly cocktail of cost of living and inflation will be almost twice as damaging to the UK's high street than the pandemic.

Meanwhile, Millennials and Generation Z-ers are increasingly drawn to the second-hand clothing market through platforms like depop, re-fashion and eBay, which reported a 700% increase in the use of the search term "pre-loved clothing" this year. In fact, circular fashion models (including resale, rental and repair) are about the only macro growth trends in the sector. According to GlobalData, the global resale market is expected to grow 11 times faster than the broader clothing sector, and the market is set to double to $77bn in five years.

Many retailers including Zara, John Lewis (through its rental programme), Superdry, Pretty Little Thing and the Chinese uber-fast-fashion brand Shein, have jumped on the bandwagon, not just to score sustainability points but to ensure they don't miss out (or to compensate for the decline of traditional sales).

There are other signs that consumer behaviours are shifting away from environmentally damaging fast fashion. The latest EY Future Consumer Index reveals that two thirds of respondents no longer feel the need to keep up with seasonal trends, with 69% now

attempting to repair rather than replace. So "newness" is losing its shine. Meanwhile, eBay's 'Shop for Change' report, revealed that over half of UK shoppers "feel guilty" when they don't buy from ethical brands; and SEC Newgate's own ESG Monitor 2022 shows 60% of UK consumers are prepared to boycott brands that fall foul of ESG issues.

Nevertheless, price is still the deciding factor in purchases. And the circular movement is only part of answer to fashion's credibility crisis. As a recent article in Vogue Business argued, without serious "degrowth strategies", circular fashion is just "another form of greenwashing". **If retailers mishandle the pre-loved opportunity, public trust in the industry will be further undermined.** And its reputation is already rock bottom - down there with mining (SEC Newgate ESG Monitor 2022).

Take the Chinese fast-fashion ecommerce giant Shein, which launched Shein Exchange last month in order "to provide a destination for Shein customers to become active participants in circularity". The gesture is worse than meaningless if the company continues to fan the flames of fast-fashion and expect its producers to work inhumane hours for 2-3p a garment, as revealed by the Channel 4 documentary UNTOLD: Inside the Shein Machine.

With activists ready to pounce on brands for greenwashing (or even greenwishing), executives are right to be cautious about their ESG activities. The time for half-baked, eco-friendly ad campaigns has gone. Companies should take care that their operations cover all aspects of ESG: from supply chain transparency and reporting through to how they treat their frontline employees and shop assistants, who have been hit hard by the cost of living crisis.

SEC Newgate's own ESG Monitor 2022 shows 60% of UK consumers are prepared to boycott brands that fall foul of ESG issues.

WILL CHRISTMAS COME EARLY FOR RETAIL AS CONSUMERS LOOK TO SPREAD COSTS?

by Clotilde Gros, Communications

With Kantar Worldpanel reporting grocery inflation at a record high of 14.7%, driving up the average bill by £682 per year, the cost of living crisis is clearly here to stay.

The consumers, who are increasingly squeezed, are not prepared to pay more. In fact, OC&C's latest annual Retail and Proposition Index report reveals that **43% of consumers are planning to spend less in the next 12 months.** This means that retailers must act urgently to set and communicate fair and consistent pricing, to protect trust while managing inflation.

With the threat of a recession looming, rising food price inflation and the October energy price cap increase, many retailers are using 'sales' tactics to encourage shoppers to start their Christmas shopping earlier to 'spread out' their holiday spend.

While this might help households with managing their budgets and spend over the peak period, retailers will also be hoping to bank some seasonal spend early, before the impact of higher food prices and energy bills is fully felt and budgets are squeezed further.

Retailers are hoping Christmas will come early this year because they need the crucial Christmas sales uplift which arguably the most important trading period. As of 1st November 2022 the London Stock Exchange FTSE 350 General Retailers Index show that the share price of its constituents is down circa 38% year on year.

It is not really better for the privately-owned sector, the latest figures from the ONS and Insolvency Service showing that the number of retail insolvencies in Q2 2022 reached its highest level since 2012. There were 478 insolvencies in the retail sector,

up by 141% year on year. The biggest contributors to the rise came from online retail (+288%), driven by higher costs and a shift in consumer spend back to stores following the online boom during Covid.

There haven't really been any retailer winners so far this year and, in our opinion, 2023 will be extremely tough for the sector with continued uncertainty, energy and staff costs, interest rates and sterling/dollar input costs.

All eyes will be on the January Christmas trading updates which will most certainly set the trend for 2023.

COST OF LIVING TURBULENCE MEANS TECH FIRMS HAVE HAD TO RETHINK STRATEGY TO WIN MARKET CONFIDENCE

by Bob Huxford and George Esmond, Communications

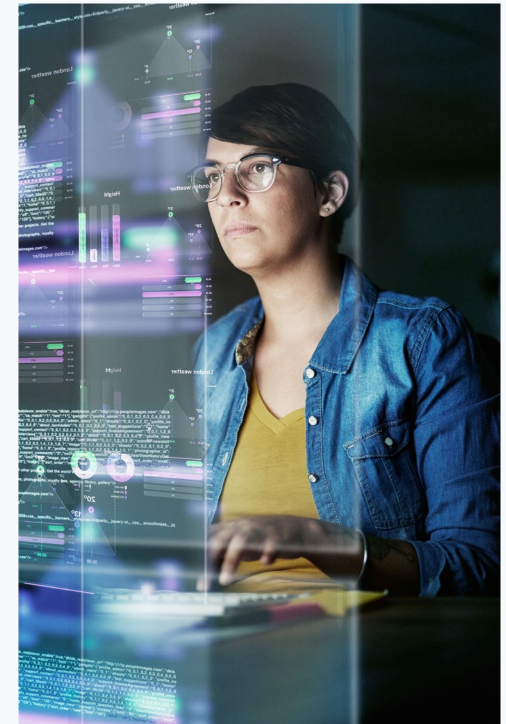
Technology shares rose substantially during 2020 and 2021, driven by a lockdown induced increase in online activity, and exacerbated through huge amounts of quantitative easing money **($4.5 trillion in the US alone between March 2020 and Sep 2021) looking for a home. This led to technology stocks reaching an all-time high by November 2021.**

At that point investors began speculating that interest rates may have to rise to contain growing inflation, and higher interest rates have an outsized negative effect on technology stocks as they reduce the future cash flows on which technology companies are valued. Share prices duly began to fall and the technology sector, at its all-time highs, had further to fall than most.

In early 2022 central banks did indeed begin to increase interest rates and a reduction in spending from the cost of living crisis; increased energy, borrowing and staff costs; and specific issues such as the global microchip shortage all added to the sector's woes. The Nasdaq, the stock market on which the world's biggest and best technology stocks are listed, and a barometer for the health of the global technology market, has declined 30% in the past year. The technology sector in the UK is down a similar 28%.

Investment journalists have been savvy to this situation with some stating from the beginning of 2022 that they were moving away from covering growth stocks, such as technology, to more defensive plays, such as energy companies or dividend-paying stocks, as a hedge against rising inflation. Journalists also became wary of reporting positively on technology companies until any upcoming results were in the market, owing to a perceived increase in the potential for forecasts to be missed.

More than ever, then, firms have had to demonstrate resilience to macro-trends, or specifically address issues affecting the markets. For example, online advertising solutions provider, CentralNic, has significantly beaten forecasts four quarters in a row, even as the digital advertising market slowed down from a record 2021. This is because its solutions don't make use of personal information and internet users are becoming ever more privacy conscious. Meanwhile, Microlise's software helps hauliers reduce fuel consumption by optimally routing fleets, an attractive offering in a time of spiralling energy costs.



Market Trades
Price(USDT)
4.791
4.791
4.791
3.500
3.000
40M
30M
20M
10M
0.00
3.226

CRYPTO NEEDS TO PRESENT ITSELF AS PART OF THE SOLUTION

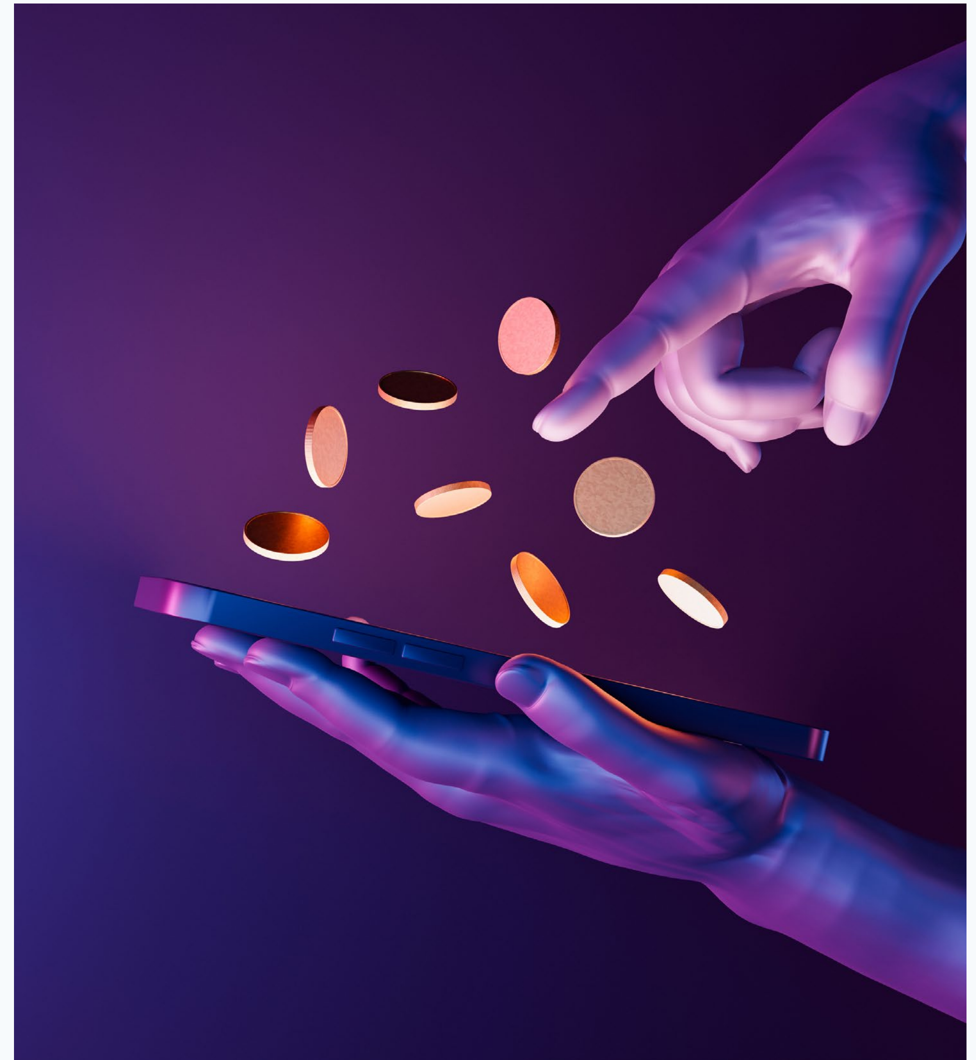
by Ian Silvera, Communications

Amid the cost of living crisis, the greatest challenge the crypto industry will face is continuing to set out its importance in the UK's economic future. As consumers struggle with their grocery bills and their mortgage rates – **so the conversation among policymakers and regulators will go – why now for crypto?**

To make that case, the industry needs to walk a fine line between protecting consumers and being globally competitive, whilst being able to innovate and grow in the UK. A focus on reputational communications and advocacy that sets out why we need to cement the UK as a global fintech and crypto hub – and is part of the solution, not a problem, in the cost of living crisis – is vital.

There is hope, however, on the horizon. The cryptocurrency industry may well wait another couple of months for the semblance of a long-overdue regulatory framework. For many, the UK is about five years too late anyway and many blockchain businesses have come and gone, setting up shop in the likes of the US and Gibraltar, where rules and punishments are much clearer. In that sense, Rishi Sunak's appointment as Prime Minister (at just 42) is somewhat inconsequential.

As Chancellor, he infamously promised a Royal Mint-backed non-fungible token (NFT) and declared that the UK should become one of the world's crypto hubs, something the 2021 Kalifa Review also called for.



Alas, it may be a bit late for that but the consequential aspect of Sunak's twisty-twirly ascent is that stuff – for want of a better word – is actually going to get done in government. And that Sunak, as a former investment bank analyst and hedge funder, has benefited from the UK's prowess in the financial services sector, an industry which blockchain technology can help enhance, advance and transform, especially alongside other technologies like machine learning and augmented reality.

The other point of note is that Sunak is not hostile to the cryptocurrency industry and at least seems to know about it. It is unclear, by way of comparison, if Chancellor Jeremy Hunt knows his Bitcoins from his block rewards. But the man actually overseeing all the change will be City Minister Andrew Griffith, who inherited the role from John Glenn in Liz Truss' flash government.

All eyes will now be on Griffith and the Financial Services and Markets Bill, which, amongst other important measures, will regulate and recognise stablecoins. The draft legislation is currently at committee stage, and may help influence whether the UK continues to be seen as – or grows into – a global fintech and crypto hub. The economic benefits that brings, if communicated well, could be the moment it's accepted into the mainstream.

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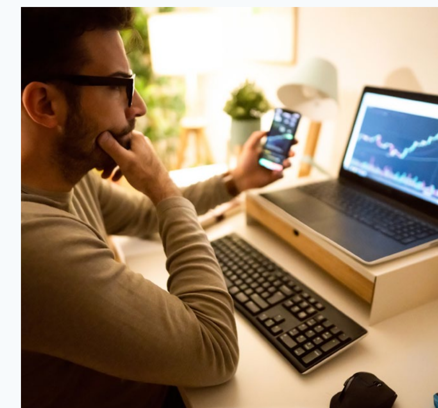


RETAIL INVESTMENT UNIVERSE CONTINUES TO EVOLVE

by Eva Rana, Communications

Arguably the biggest market crisis of 2020, the Covid-19 pandemic ended up proving a "boon" for retail investing as global lockdowns meant many savers were able to invest a greater share of their disposable/discretionary income. This was spurred by a need to overcome the low interest rates environment, followed by the opportunity to capitalise on an attractive post-Covid market recovery.

Two years on, however, this enthusiasm seems to be waning as inflation continues to erode the real value of both wages and savings, whilst exerting immense pressure on consumer expenditure and household bills.

It comes as no surprise then that many are now looking to make up the shortfall by cashing in some of their existing investments.

It comes as no surprise then that many are now looking to make up the shortfall by cashing in some of their existing investments. EQ's Shareholder Voice Report found that almost half (44%) of UK shareholders surveyed have cashed in part of their portfolio over the last 12 months. **Notably, younger investors (aged 18-40) were more likely to sell their shares than older cohorts as increased taxes and soaring energy bills have made the situation untenable for many.**

Interestingly, this trend of redemptions from mainstream assets (stocks and bonds) has coincided with the democratisation of alternative assets – including private equity, credit, and real estate – which have historically been the domain of large institutional investors such as pension funds and endowments, not least because these are harder to trade and often walled off by accreditation requirements. This looks set to change.

According to a global report by McKinsey, the proportion of alternative assets in an average retail investor portfolio could double to 5% (from the present 2%) over the next three years, adding between $500bn and $1.3tn in new capital. On a longer-term horizon, Broadridge expects the global fund management industry to pull $18tn worth of new clients over the next decade, whilst warning that competition between incumbents and new players is likely to intensify as firms battle each other for new assets.

As these potential clients increasingly seek diversification (and higher returns) beyond the "traditional" 60/40 portfolio, some of the biggest names that have already started ramping up their "alts" offering for retail investors include Blackstone, KKR, and Sun Life Financial.

Granted, a sharp rise in the cost of living has led some to reduce (or altogether pause) their investing ambitions. But this has also provided an impetus for the retail investment landscape to evolve in an interesting new direction.

It is worth paying attention to this divergence as the "next phase" in the growth of retail investing, considering not only the current macroeconomic environment, but also how it interacts with the progressive "democratisation" of the industry as whole.

Competition between incumbents and new players is likely to intensify as firms battle each other for new assets.

43%

of **consumers** are planning to **spend less** in the next 12 months

*OC&C

50%

fall in funding for local authorities **across England** between 2010/11 and 2020/21

74%

retailers **fear** the mix of cost of living and inflation will be almost **twice as damaging than the pandemic.**

* Ankorstore

HOUSING CRISIS AND SHRINKING BUDGETS LEAVE LOCAL AUTHORITIES STRUGGLING TO SUPPORT RESIDENTS AMID COST OF LIVING CRISIS

by Perry Miller, Advocacy Local

In a recent article on the cost of living crisis, Cllr Georgia Gould, Leader of LB Camden and Chair of London Councils, wrote that 'the prognosis is grim but not incurable'. Those of us who work in the planning and property sector have been saying much the same in relation to housing supply for years. The two topics are closely linked: unless you're in the enviable position of owning your property outright, your rent or mortgage is likely your biggest monthly outgoing, and right now spiralling upwards at a frightening rate.

Cllr Gould went on to point out that in London: one in ten have fallen behind on their bills; private rents have increased by 15% over the past year alone (Zoopla's Q3 2022 report puts the average rent now at £1,818 pcm); and private sector tenants now spend almost 40% of their income on rent. Let's also not forget that there are 150,000 homeless people in the capital living in temporary accommodation.

What's the solution? Some authorities are declaring cost of living emergencies. Cambridge City Council is one: it has set up a dedicated working group, in partnership with the voluntary sector, and has introduced Cost of Living Help webpages and a health and heating initiative for the more vulnerable, while it continues to support food hubs and is championing (and paying) a real Living Wage. Other local authorities plan to designate 'warm spaces' within their property portfolios where residents will be able to shelter from the cold during the winter. If this doesn't sound like much, **it's because councils are facing their own cost of living crisis.**

'The prognosis is grim but not incurable' - those of us working in planning and property have been saying much the same in relation to housing supply for years.

Funding for local authorities across England fell by more than 50% between 2010/11 and 2020/21, and while the settlement for 2022/23 provides for an increase of 6.9% in council funding, this is at a time when inflation has hit 10.1%. In its first submission to the new Chancellor, the Local Government Association pointed out that 'energy prices, spiralling inflation, and National Living Wage pressures are set to add significantly increased costs to councils' budgets'. Their analysis is of a funding gap of £3.6 billion in 2023/24 rising to £4.5 billion in 2024/25. Through a series of FOI requests, Unison found local authorities contemplating closures of libraries, leisure centres and nurseries. The Leader of Kent County Council has said: 'We've never been looking at a projected set of pressures on this scale; no one should doubt the gravity of the situation'.

But let's not lose sight of the main – and prolonged – source of pain: the cost of housing. **For some of us, it's the mortgage (150,000 households remortgage each quarter and are currently facing an average £400 per month increase); for others, it's double-digit increases in rent** or – worse still – eye-watering bills to address fire safety issues.

That's for those with a home: Propertymark published figures earlier this year showing that the availability of properties to rent has dropped by half since 2019. The main reasons given were tougher legislation to protect renters, rising house prices (i.e. cashing in) and people re-evaluating their 'portfolio' post-Covid. Colleagues at SEC Newgate are not immune to the effects, enduring beauty contests, bidding wars and regular disappointment in their search for a place to rent.

The long-term key to affordability is a better supply of new homes. Without rehearsing the arguments here, the pandemic certainly didn't help with delivery, but the labyrinthine planning system, beset by permanent staff shortages, delays and community opposition, continues to weigh heavy on progress. The deregulatory planning reforms promised by Liz Truss (for whom housing targets were 'Stalinist') are no longer on No. 10's agenda.

What comes next depends on the bargaining skills of Levelling Up Secretary, Michael Gove, who returns to post to finish what he started earlier this year. Waiting for him is the on-going cladding saga where his tough approach towards developer liability has led to a standoff (much to the despair of leaseholders in financial turmoil) as well as private rental reform, including a ban on no-fault evictions, where he seems more likely to succeed. On the broader subject of housing delivery, in a recent interview with the BBC, he noted that the government was still committed to building 300,000 homes every year (c.200,000 were built in 2021) but that the economic circumstances made it difficult: 'the cost of materials has increased because of the problem with global supply chains and also a very tight labour market means that the capacity to build those homes at the rate we want is constrained.' Wonder what could have caused that?

Local elections take place in less than six months' time. We'll then see if the electorate is in a forgiving mood.

> "We've never been looking at a projected set of pressures on this scale; no one should doubt the gravity of the situation."
> Leader of Kent County Council

WHAT DOES THE COST OF LIVING CRISIS MEAN FOR THE NET ZERO AND ESG AGENDA?

by Andrew Adie, Green & Good

As the cost of living crisis started to bite earlier this year and as we waded through political turmoil and changes of prime minister, there was much debate about what all of this meant for the 'green agenda'.

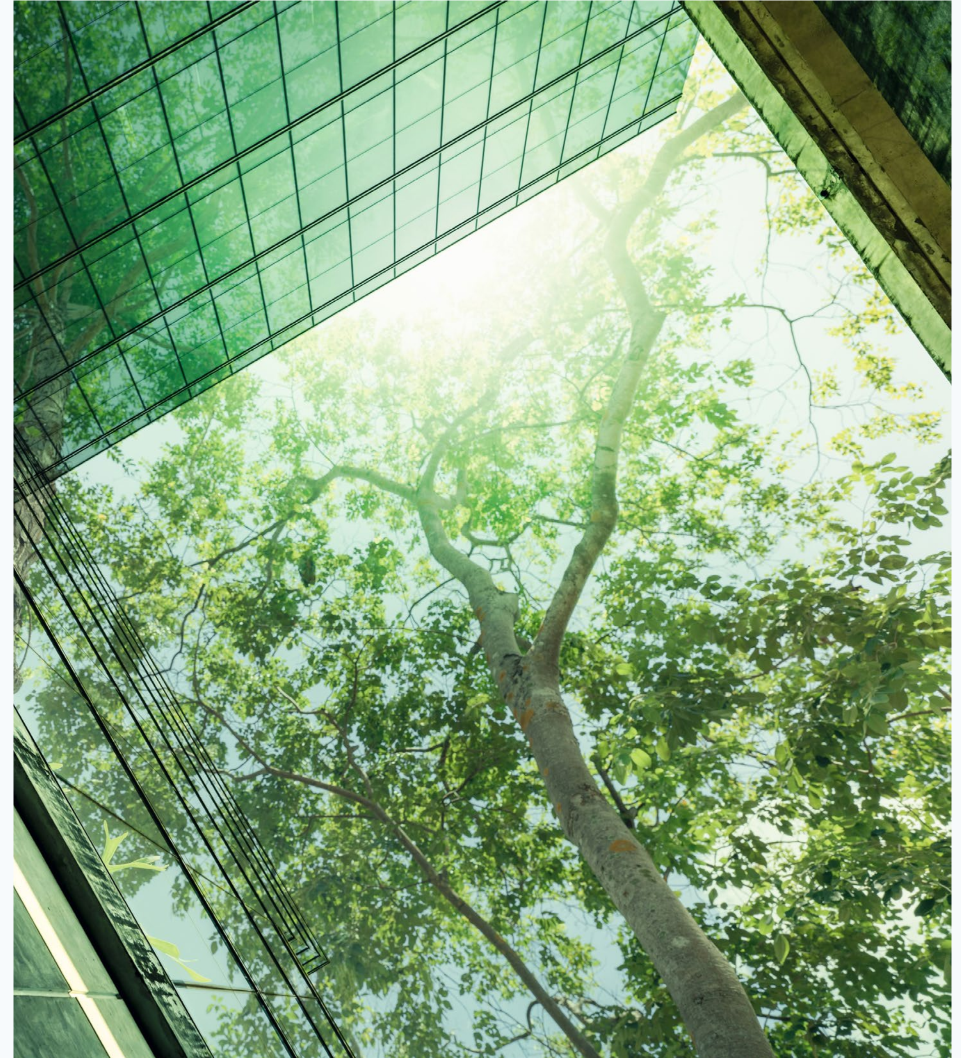
This has played out in multiple different ways not just in the UK but also internationally.

On one hand, the energy crisis has focused attention on the need to boost the UK's energy security but opening up the taps on fossil fuels (or allowing new fracking) have not proven popular with voters who still (as our annual ESG Monitor has shown) care deeply about the environment.

As a result, there has been renewed debate about how the UK invests in renewables infrastructure and power and also reduces energy usage through energy efficiency in homes and buildings. The value of energy as well as the price is suddenly at the top of the agenda and addressing it is a social and environmental imperative.

On the other hand, squeezed income means that for many people making ends meet and economic survival means that paying more for products that have a lower footprint is not an option.

That doesn't mean that companies are off the hook. **Consumers still want to see corporates behaving like good corporate citizens and that means the cost and responsibility of driving the green agenda falls more heavily on corporate shoulders during these times of consumer hardship.**



The other element in the debate is around ESG. In the US we have seen huge scrutiny by Republican politicians of the ESG investment criteria adopted by fund and investment managers. Simplistically the criticism is that in an era of soaring fossil fuel prices, investment managers that eschew these businesses on ESG grounds are failing in their fiduciary duty to their customers because they are denying them the opportunity to invest in growth in the value of these stocks.

The counter argument is that by following ESG investment criteria the fund managers are future proofing the value of their portfolios. The energy crisis (and the cost of living squeeze that has followed) has supercharged a debate that was already happening and some US federal administrations have blacklisted fund managers who are using ESG criteria from the running of pension schemes for government employees as a result.

While the environmental element of the ESG movement has been impacted by the energy and cost of living crisis, the social and governance elements have also come in for renewed scrutiny.

On a social side, the role and responsibility of business is been examined anew. Covid introduced a new standard for corporate behaviour. The concept that business has a responsibility to preserve jobs in tough times even at financial cost to itself, rather than using job cuts as a route to uphold the bottom line.

With inflation running above 10%, the role of business in supporting jobs and also the responsibility it holds in managing demands for pay rises in a way that balances staff needs for more money with an economic responsibility not to stoke a wage inflationary spiral is intense. It is very much in the spirit of ESG – the idea that corporates exist to serve a higher calling, to deliver for all stakeholders and to operate responsibly.

On the other hand, squeezed income means that for many people making ends meet and economic survival means that paying more for products that have a lower footprint is not an option.

The result is that wage rises have been more subdued than many would want and some organisations have resorted to one-off bonuses to cover immediate demands for more money from staff who are struggling to pay their soaring household bills.

The broad thrust that comes out of the global cost of living and energy crisis is not positive for the environment and net zero. Achieving net zero and keeping global warming to no more than 1.5C is looking increasingly unlikely to be achieved. In a time of deep geopolitical and economic uncertainty, dialling back environmental ambitions can seem expedient.

The UN COP27 Conference in November has shown that there is significant difference of opinion on this, with growing anger from the global South around the global North's unwillingness to take hard decisions and drive the road to net zero. While action on net zero maybe being wound back in the face of other challenges, the pressure and need to deliver the environmental agenda, and address the social and governance issues that are also inherent within it, has not gone away.

We are storing up troubles for the future across multiple fronts.

The pressure and need to deliver the environmental agenda, and address the social and governance issues that are also inherent within it, has not gone away.

SEC Newgate is an insights-driven global strategic communications and advocacy group, with deep experience across government, markets and media.

Get in touch with any questions on what the cost of living crisis could mean for your organisation at **ben.monteith@secnewgate.co.uk**

secnewgate.co.uk