Schroders

UK Financial Adviser Survey

Adviser Pulse Report

May 2023

Marketing material for professional clients only.

Contents

Introduction

Our UK Financial Adviser Survey series aims to deliver a range of insights that can help advisers with their planning. It covers a wide variety of issues from the current challenges facing financial advisers, to the way their strategic thinking is developing and the direction of travel for the industry.

This report sets out the key findings from the May 2023 Adviser Pulse Survey, conducted online between 2 May and 16 May 2023. This was completed by 180 advisers and we hope that you find it informative and useful.

How are clients feeling about investing?

Sentiment

Despite some progress in equity markets since our last survey in November 2022, 44% of advisers report that sentiment among their clients remains bearish.

However, client sentiment has improved somewhat from our last survey when 68% of advisers believed their clients were bearish.

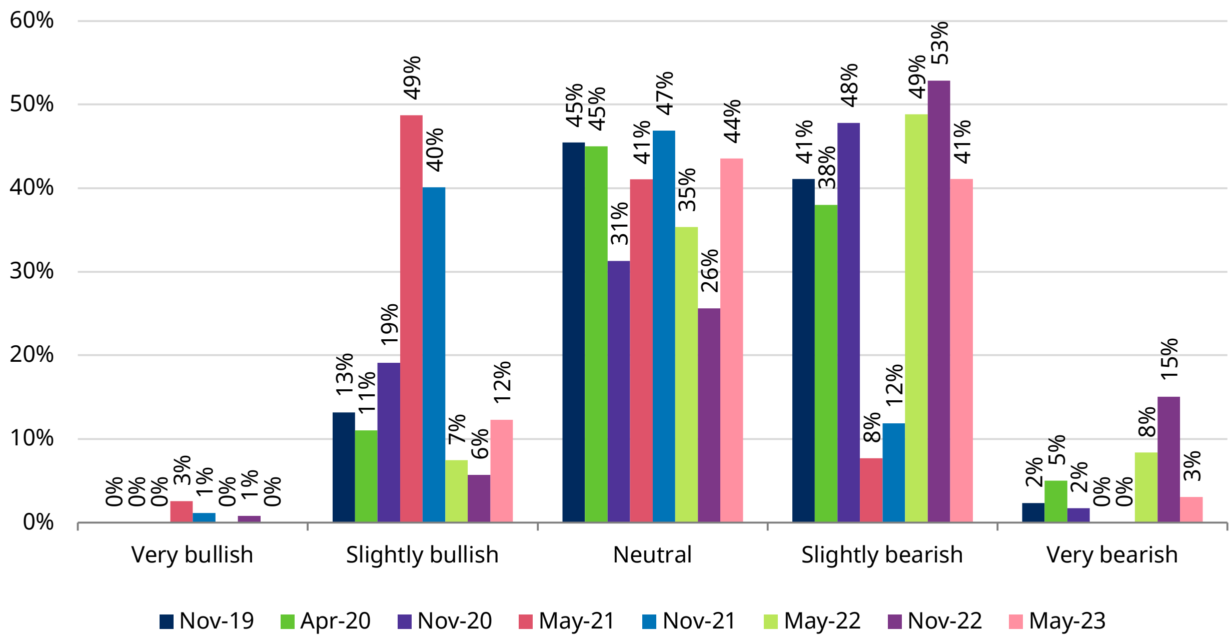
44% of advisers' clients are now neutral (up from 26% in November 2022) perhaps demonstrating that volatility over the last few years has lead to clients being wary of predicting the future?

The market background remains challenging with no sign of an end to war in Ukraine, heightened geopolitical tension, and persistent inflation keeping central banks in tightening mode. However, progress in equity markets has come against a background of economic news flow that will have confounded those expecting an imminent global recession.

The US economy appears to have started 2023 on a relatively strong footing as the resilient labour market continues to underpin activity. We still think that tighter monetary policy will cause the US economy to fall into recession in the second half of this year, but it will probably be shallow, short-lived and a bit later than we previously assumed. The carry-over from better-than-expected activity in the fourth quarter of last year means that even if output contracts later this year, the US economy may still eke out positive growth in 2023 as a whole.

We are still forecasting a period of negative growth in the UK this year but by the end of 2023, the economy should begin to bottom out, and start its sluggish recovery over 2024. Eurozone activity in general has continued to surprise to the upside.

How would you describe the sentiment among most of your clients?



Client concerns

We asked advisers what their clients were currently most concerned about – capital loss, inflation, generating sufficient income or rising interest rates.

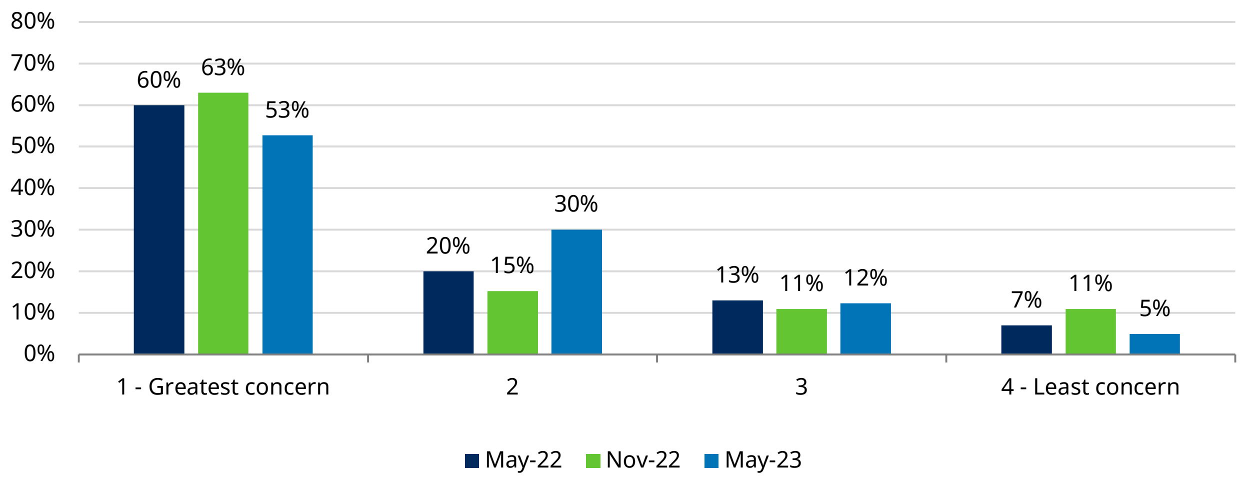
While most advisers reported that capital loss remains the biggest concern for their clients, for growing numbers, concerns about inflation have also come to the fore. 53% of advisers rank capital loss as their clients' greatest concern, down from 63% in November 2022 while 32% of advisers now rank inflation as their clients' greatest concern, a significant increase from 18% in November.

Inflation has risen sharply over the past couple of years with the cost of living soaring ahead of wages, cash returns and the returns that most investors will have been able to achieve on their investments. Aggressive interest rate hikes look set to tame inflation but once tamed, rates are still set to be higher over the next 5–10 years with inflation much more engrained in everyday goods and services.

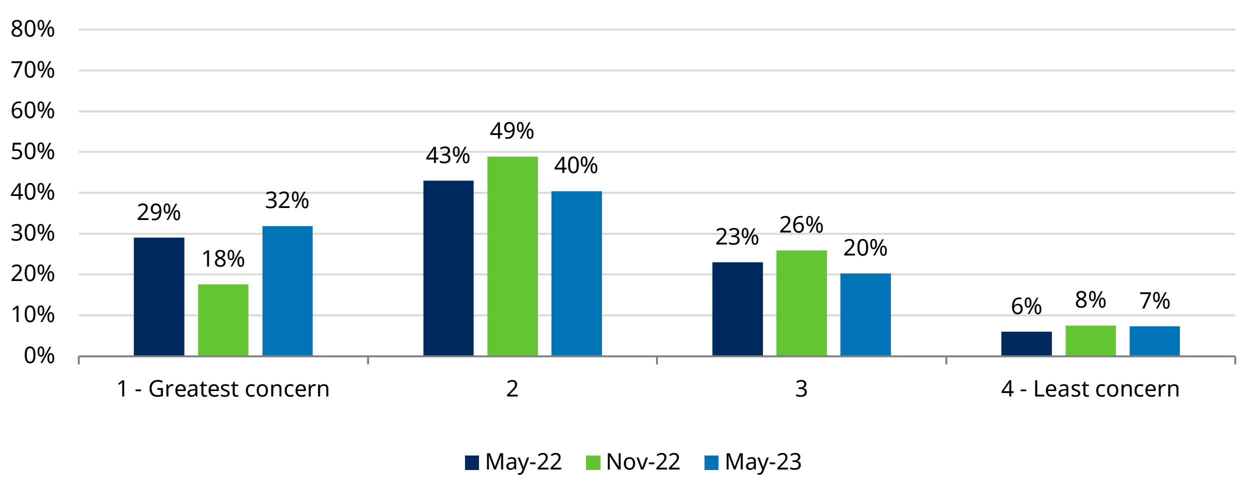
Advisers' clients remain least concerned about rising interest rates. This may be because many advisers' clients are at the stage of life when they will have paid off most or all of their mortgage and have built up cash savings, which will benefit from higher rates.

Which of the following factors do you think clients are most concerned about in the current environment? Ranked in order from 1–4

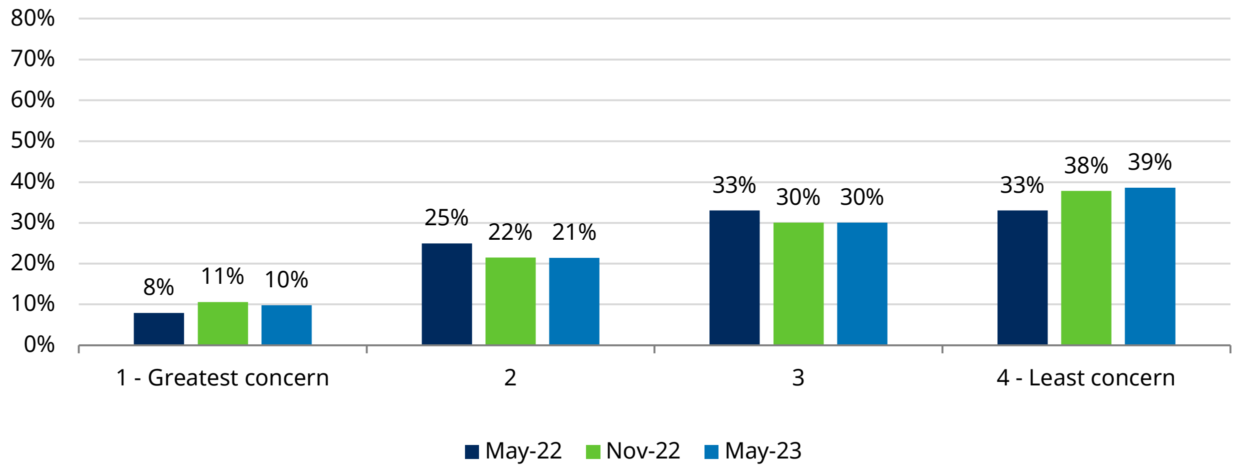
Capital loss



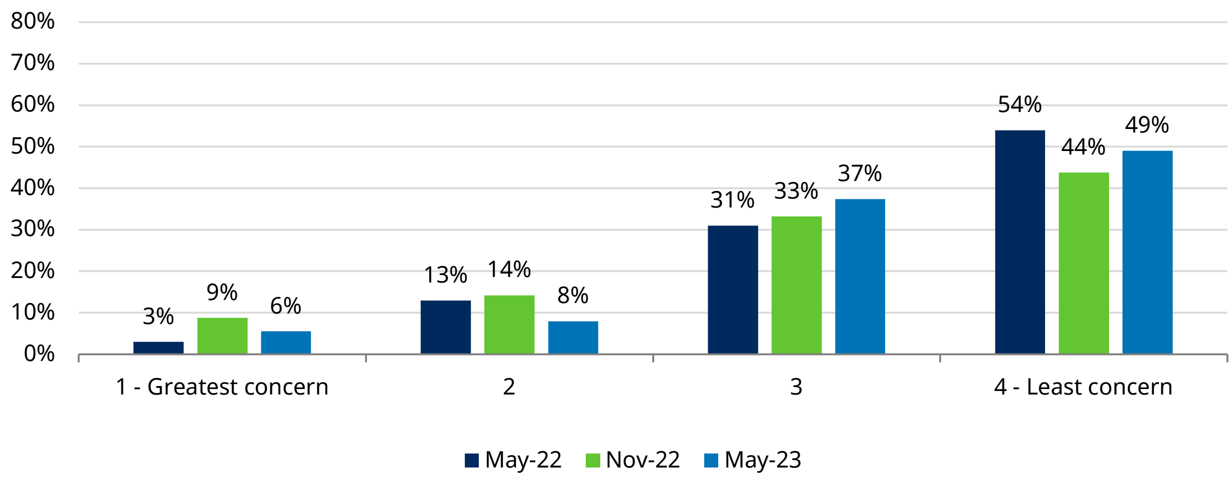
Inflation



Generating sufficient income



Rising interest rates



Last year was a shock for many investors. After a prolonged period of near zero interest rates, inflation spiked. It came at such a fast pace that central banks were caught on the back foot resulting in one of the fastest interest rate hiking cycles in history.

Equities and bonds fell in tandem; investors in a typical 60/40 portfolio of equities and bonds experienced one of their worst years on record.

We are very aware that most clients are still hurting.

The Bank of England has raised interest rates to 4.5% and the rates available of some cash savings products have risen commensurately to reach their highest levels since the global financial crisis. Meanwhile, market conditions remain challenging and capital loss remains the biggest concern for most advisers' clients.

Advisers will have clients who may be thinking about whether or not they should move money into cash savings products and 90% of advisers in our survey are currently having conversations with their clients about the merits of long-term investing against cash deposits.

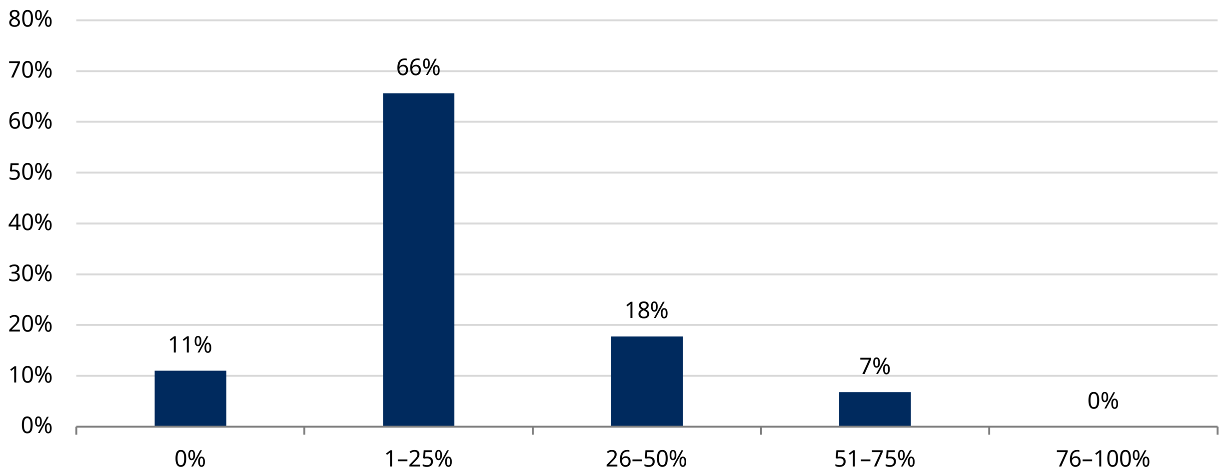
Whilst interest rates look attractive, it's important that clients understand the impact of inflation on these 'safe' investments. The benefit of working with an adviser who can have an informed discussion following the question 'Is now a good time to invest in cash?' cannot be overstated. Advisers have a crucial role to play in making a persuasive case to clients for remaining invested to give them the best chance of achieving their long-term objectives.

Cost of living crisis

In May 2022 69% of advisers anticipated that some of their clients would have to change their investment plans as a result of the cost of living crisis and in November last year 53% reported that clients had starting adjusting plans. The result from this survey demonstrate that this is increasing and has now risen to 89%.

Of those reporting that clients have changed plans, 66% have indicated that up to a quarter of clients are now in this position.

What proportion of your clients have adjusted their plans due to the cost-of-living crisis?

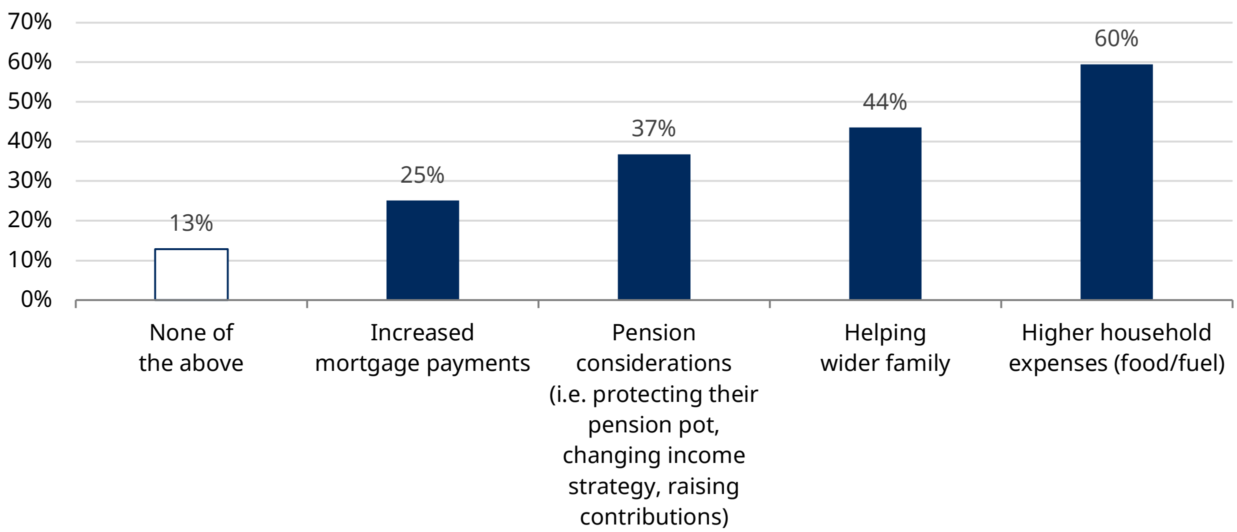


We also asked advisers about the reasons for clients changing their plans.

The main reason given for changing plans was higher household expenses, cited by 60% of advisers, followed by helping wider family, cited by 44% of advisers.

It is interesting to see that helping the wider family is cited more often than matters that relate to a client's own financial circumstances, pension considerations and increased mortgage payments. This supports the earlier comment that advised clients are often mortgage free and reflects their lifestage.

Have any of your clients given the following reasons for changing their plans over the past 12 months? (select all that apply)



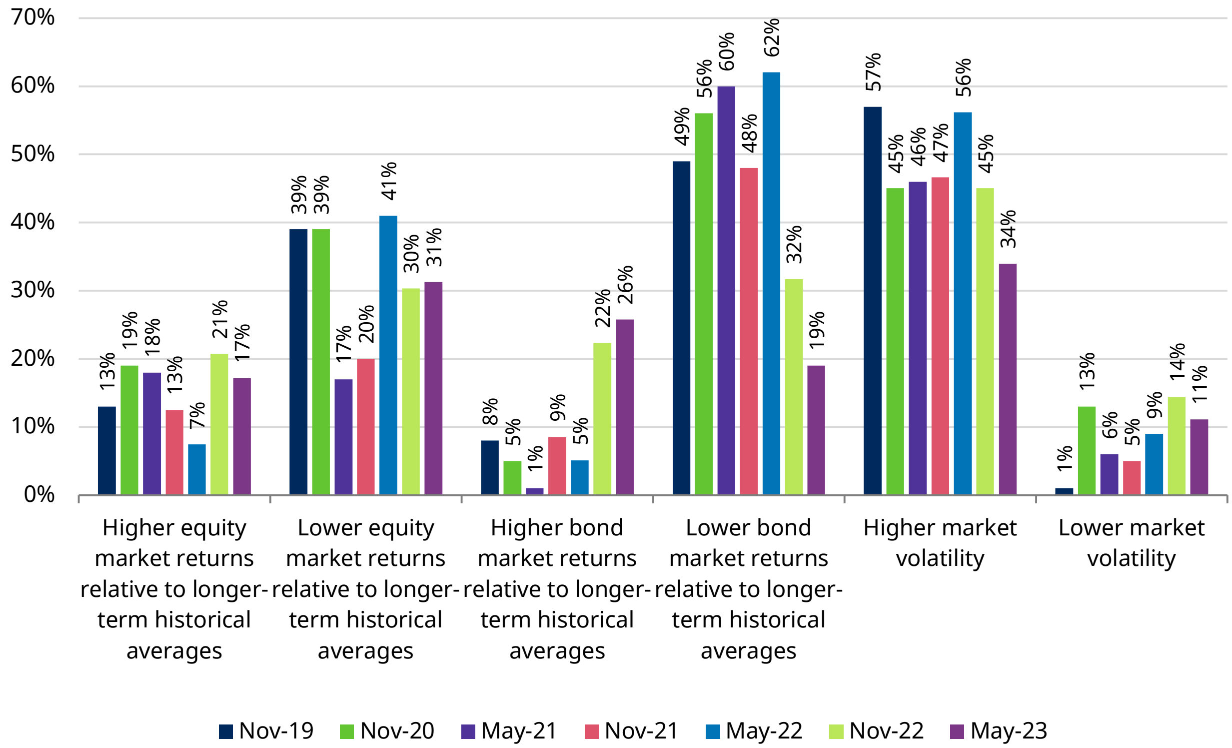
Market trends

31% of advisers expect equity market returns to be lower than historical averages over the next 5 years against 17% who expect to see higher returns.

On balance, advisers view prospects for bonds as more positive with 26% expecting returns to be higher than historical averages against 19% who expect lower returns – a significant drop from 62% who expected lower returns at the same time last year.

Three times as many advisers expect that volatility will be higher than historical averages than lower (34% vs. 11%). However, this compares to 56% who expected higher volatility in May last year, so perhaps there is an expectation that markets will become less choppy.

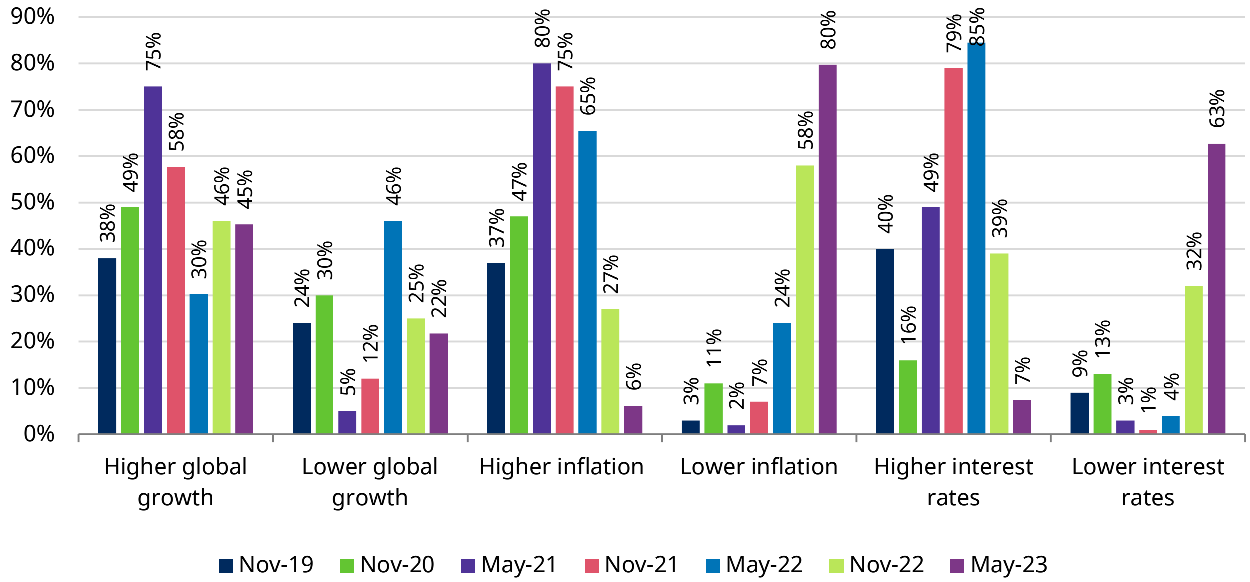
How would you expect the following to trend over the next 5 years?



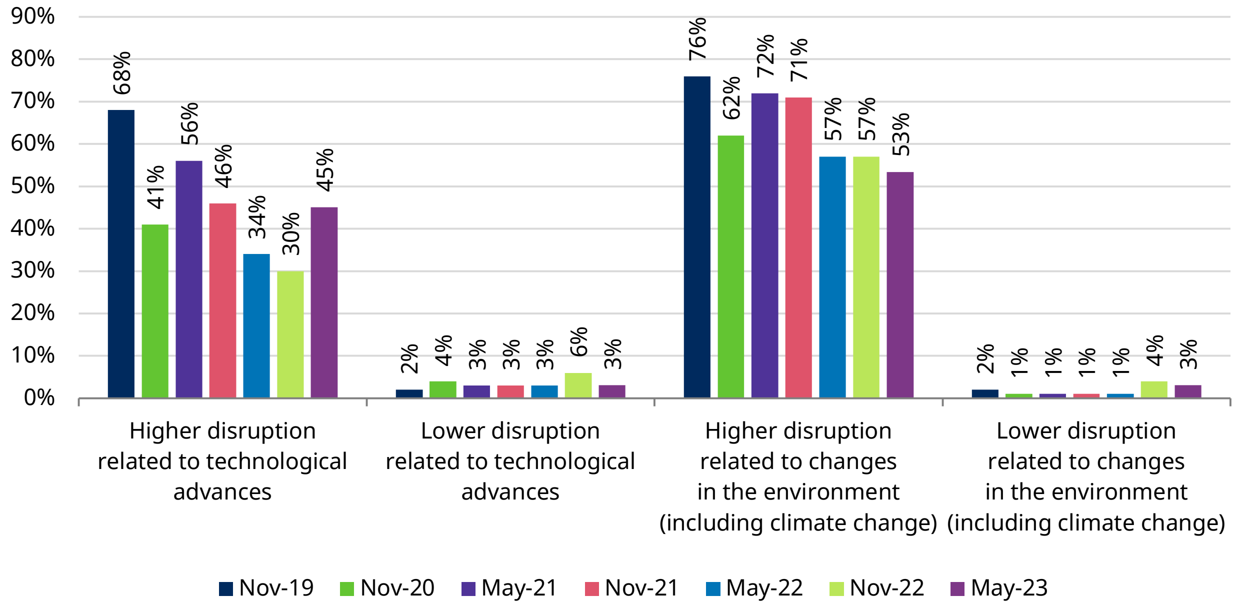
Advisers are anticipating that the period of sharply rising inflation is coming to an end and that central bank interest rates will come down from current levels.

80% of advisers expect that inflation will trend lower over the next five years and 63% expect that interest rates will do likewise. Only 6% expect higher inflation and 7% higher interest rates.

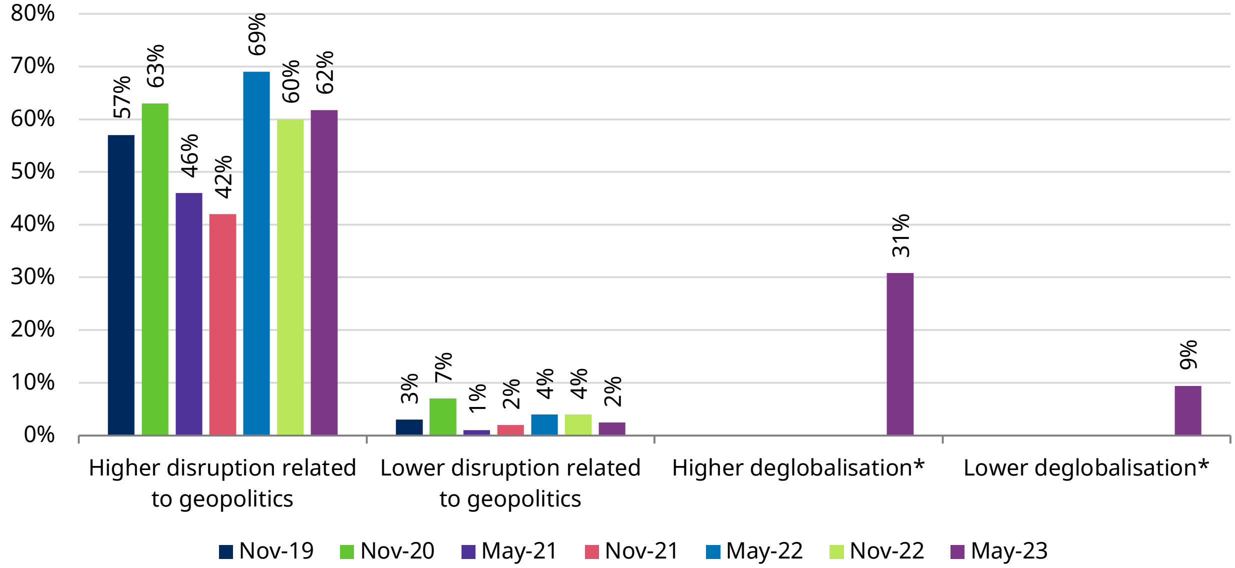
45% expect higher global growth against 22% who expect it to trend lower.



Advisers expect that disruption will remain a major theme in markets. 53% expect higher levels of disruption related to changes in the environment, including climate change, little changed from November. The percentage of advisers expecting higher disruption related to technological advances has risen from 30% to 45%, which could be a reflection of the enormous coverage there has been on developments in Artificial Intelligence since the launch of ChatGPT.



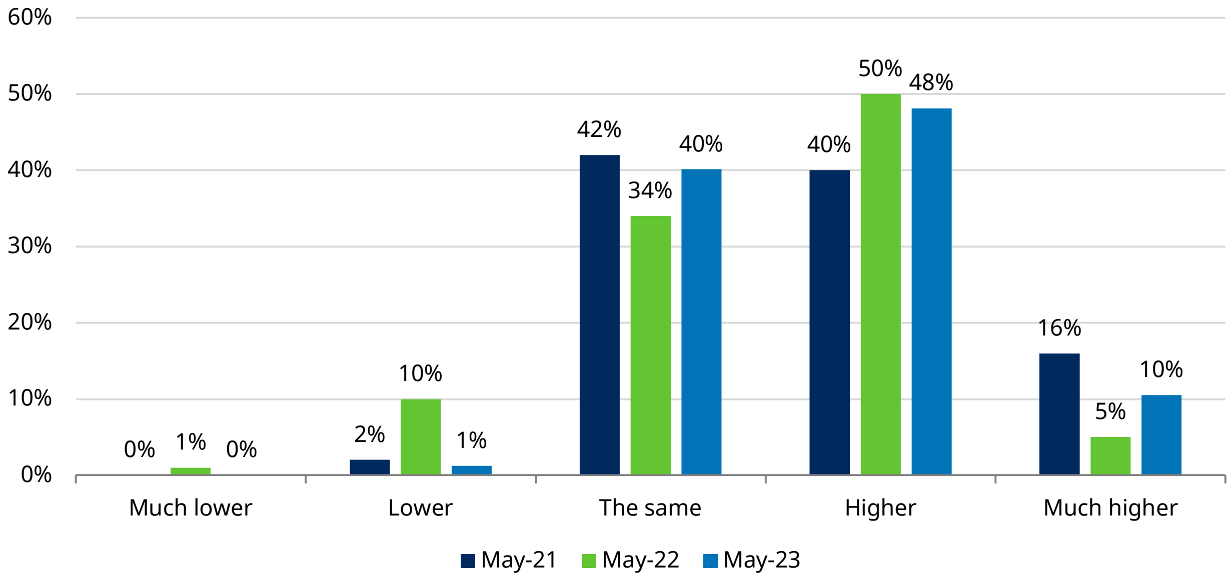
The percentage of advisers who expect a higher level of disruption related to geopolitics remains high at 62%, which is unsurprising given the war in Ukraine and continuing tensions over Taiwan. Against this background, we asked a new question about deglobalisation and 31% of advisers expect that this will persist as a trend against 9% who expect global markets to open up further.


80%
70%
60%
50%
40%
30%
20%
10%
0%
57%
63%
46%
42%
69%
60%
62%
3%
7%
1%
2%
4%
4%
2%
31%
9%
Higher disruption related to geopolitics
Lower disruption related to geopolitics
Higher deglobalisation*
Lower deglobalisation*
Nov-19
Nov-20
May-21
Nov-21
May-22
Nov-22
May-23

Client activity

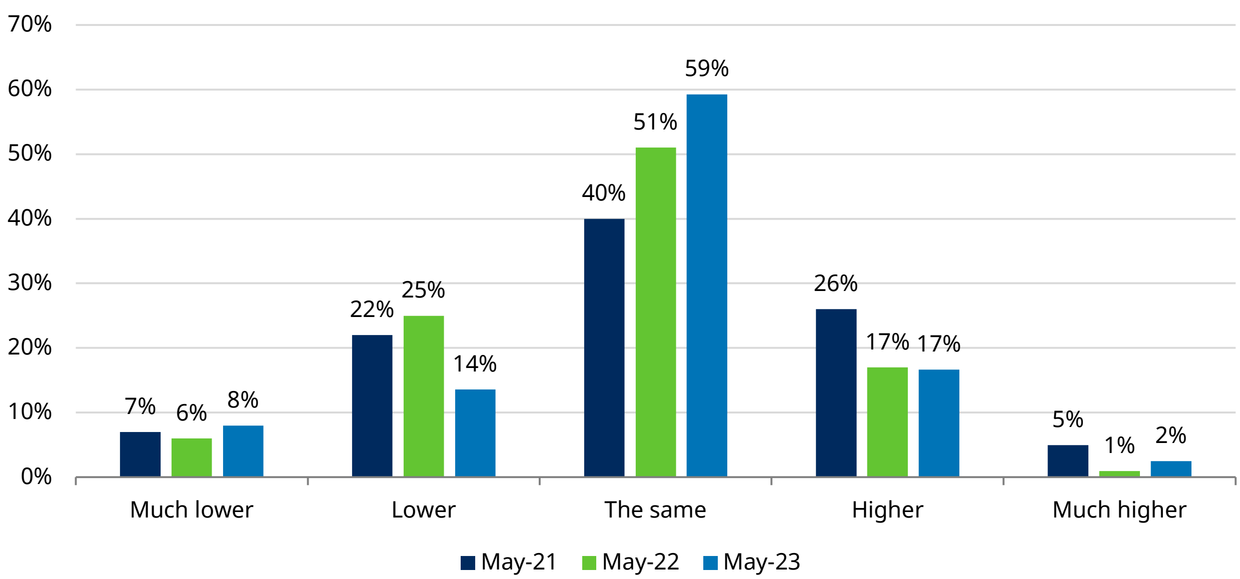
Against a difficult market background, 58% of advisers say that they have been spending more time servicing their existing clients over recent months while only 1% say they have been spending less time.

How has the amount of time you spend servicing existing clients changed in recent months?



22% of advisers have spent less time attracting new clients over recent months, 3% more than the 19% of advisers who have spent more time attracting clients. This is likely a reflection of the increased amount of time many adviser have been devoting to servicing existing clients.

How has the amount of time you spend attracting new clients changed in recent months?

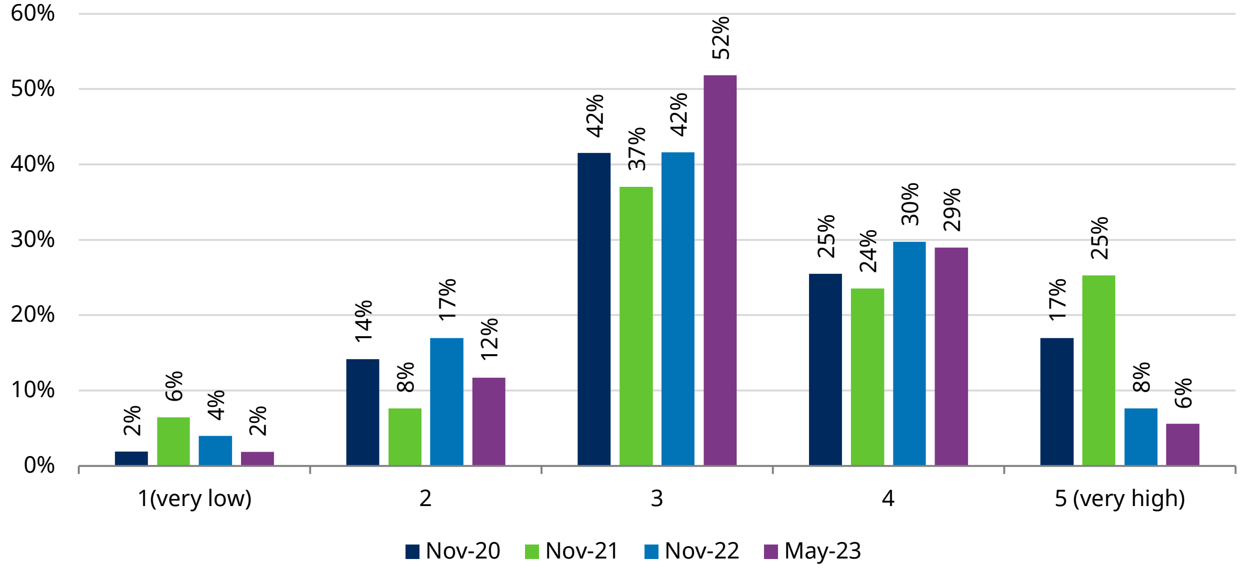


Sustainability

66% of advisers rate their confidence about talking to clients with consistency about the terminology, regulation, integration and behavioural implications of sustainable investing as average to low and the percentage of advisers who are very confident talking about sustainable investing has fallen from 25% to 6% since November 2021.

The delay of the SDR regulation until later this year may have contributed to this pattern as we continue to be 'in limbo' regarding product labelling. However, if further clarity from the FCA is delivered later this year then perhaps this may change.

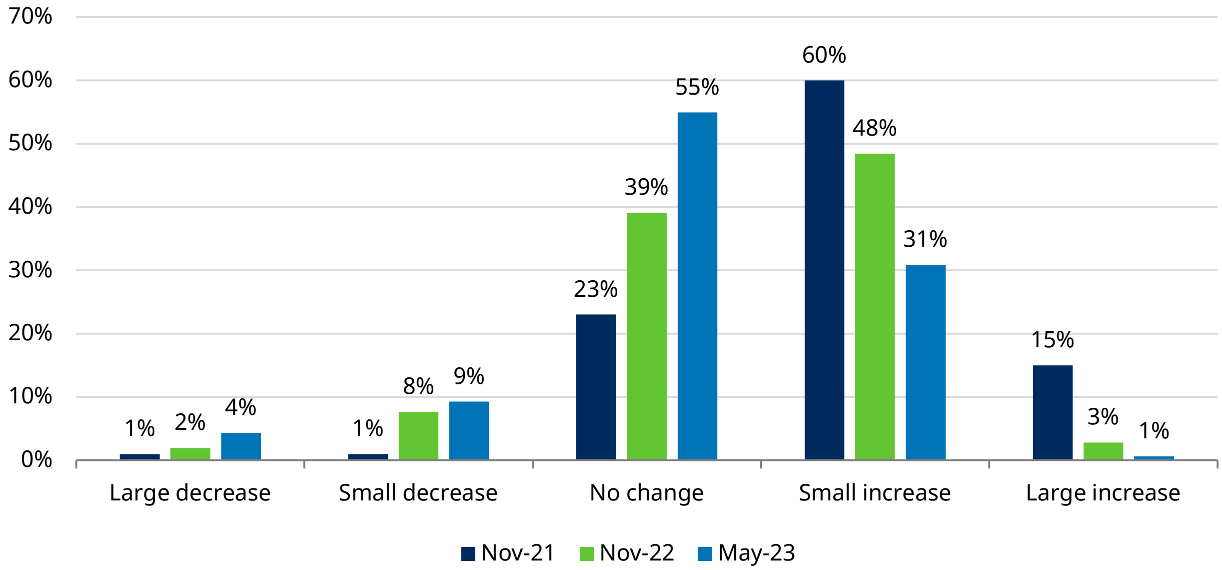
Rate your level of confidence about talking to clients with consistency about the terminology, regulation, integration and behavioural implications of sustainable investing on a scale of 1 (very low) to 5 (very high)



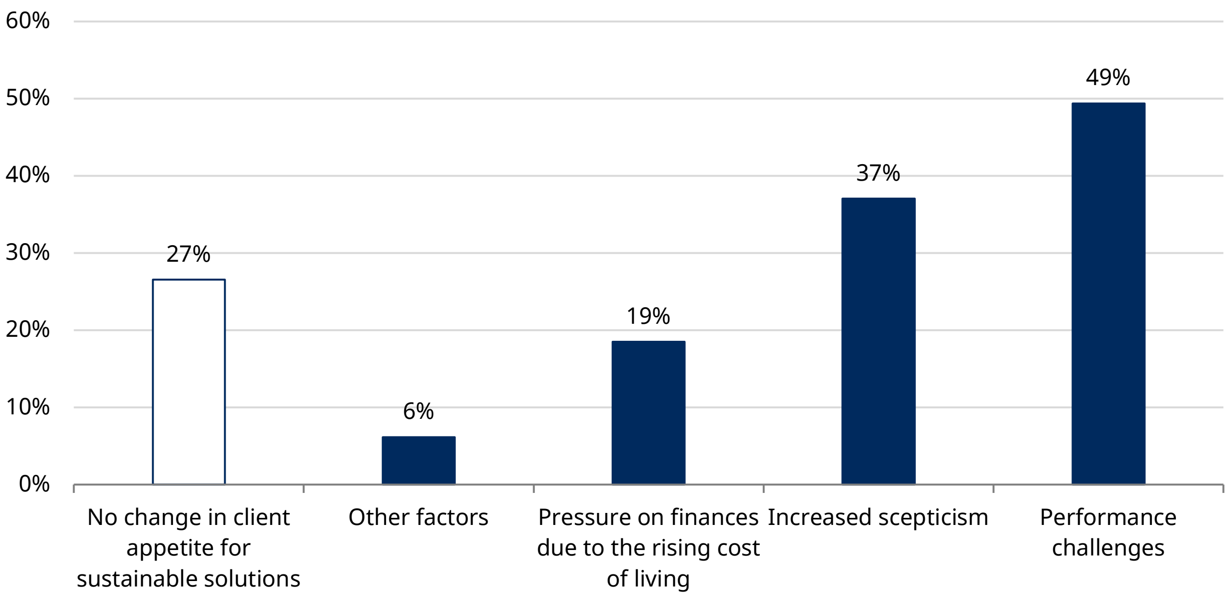
Over the past few years, increasing numbers of advisers' clients have begun to explicitly specify that their investments should reflect ESG factors in some way. However, the survey suggests that this trend may have slowed very slightly.

32% of advisers have seen an increase in the number of clients asking for sustainable investment options over the past 12 months. This is down from 75% in November 2021 but as 55% reported 'no change' then this could be an indication that many are already asking. 2022 was a challenging year for sustainable investments and reflected by 49% of advisers who said that performance challenges had an impact on client appetite.

How has the number of clients asking for sustainable investing changed over the past 12 months?



Which of the following factors do you think may have had an impact on client appetite for sustainable solutions over the last 12 months?



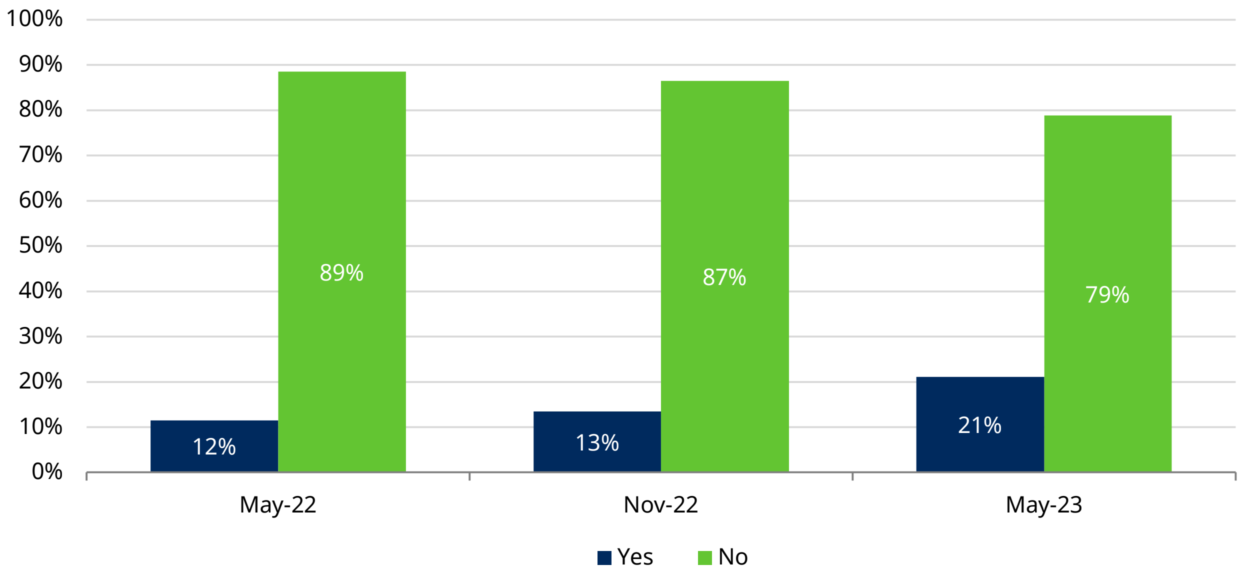
Investment choices

Private assets

In 2023, Schroders launched the first Long-Term Asset Fund (LTAF) in the UK market. While initially only available to professional investors, the FCA has proposed changes that, if confirmed, would open up distribution of LTAFs to a wider range of retail clients. These are exciting developments which will give investors more access to private markets and will support future productive finance initiatives including the transition to a low carbon economy.

With this backdrop it was very encouraging to note that 21% of advisers are considering using private market investments with their clients, an increase from 12% in May 2022.

Are you considering using private market investment solutions for you clients?



Multi-asset

Advisers continue to strongly favour high quality active management in multi-asset when this is delivered in a cost competitive way. When asked which fund they would be more likely to recommend if they had equivalent charges, a fully active multi-asset fund with a robust, proven investment process or a passive multi-asset fund, 86% selected the active fund.

Crypto assets

68% of advisers say they are concerned about young people investing in crypto and digital assets. This is a significant shift from last year where only 20% of advisers showed concern.

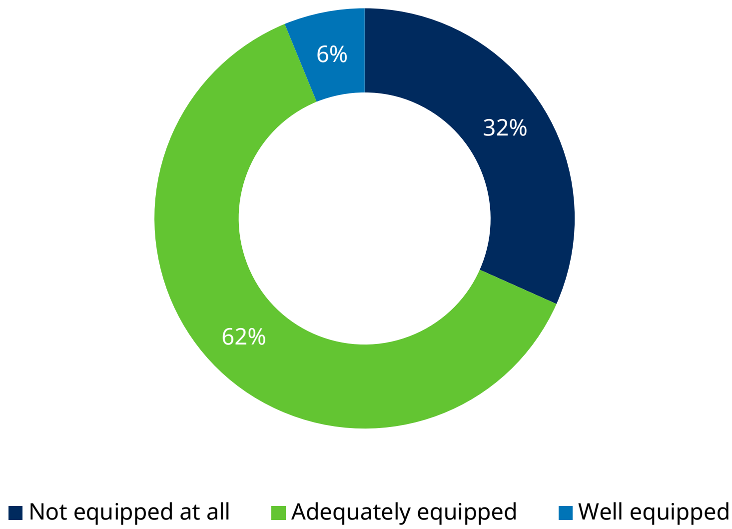
Seven in ten young people (70%) are aware of cryptocurrency such as bitcoin, ranking well ahead of individual stocks and shares (59%), premium bonds (49%), bonds (43%), investment funds (23%), forex (21%), investment trusts (18%) and investments through crowdfunding platforms (also 18%), according to the research conducted by Research in Finance. (Source: AIC 2023).

32% of advisers say that they are not equipped at all to have discussions with clients on crypto and digital assets.

This is the generation which will be inheriting wealth and without any engagement, advisers are likely to see assets flow out of their business and possibly into digital options. Informed conversations with next generation clients about crypto assets could be a good starting point by way of engagements.

To equip them for client conversations, many advisers would clearly benefit from more high-quality information and education on crypto and digital assets and we are happy to provide support for these conversations.

How well equipped are you to have discussions with clients on crypto and digital assets?

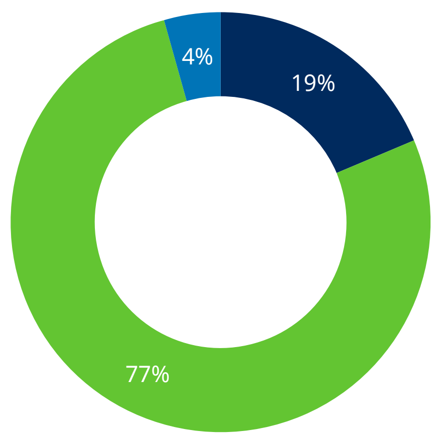


Consumer Duty

The Financial Conduct Authority's (FCA) Consumer Duty comes into force from 31 July 2023 for existing products and services, seeking to ensure that clients receive 'good outcomes' and that firms provide evidence that these outcomes are being met.

Given the imminent timescales, it is encouraging to note that 19% of advisers say they are fully prepared for Consumer Duty and 77% say that their preparations are in progress and that they should be ready for the end of July. However, 4% say that they have not yet stated to prepare.

How well prepared are you for Consumer Duty regulation?



It is perhaps surprising to note that only 25% of advisers thought that the Consumer Duty would have an above medium impact on their business and we were keen to use the Pulse Survey to explore this in more detail.

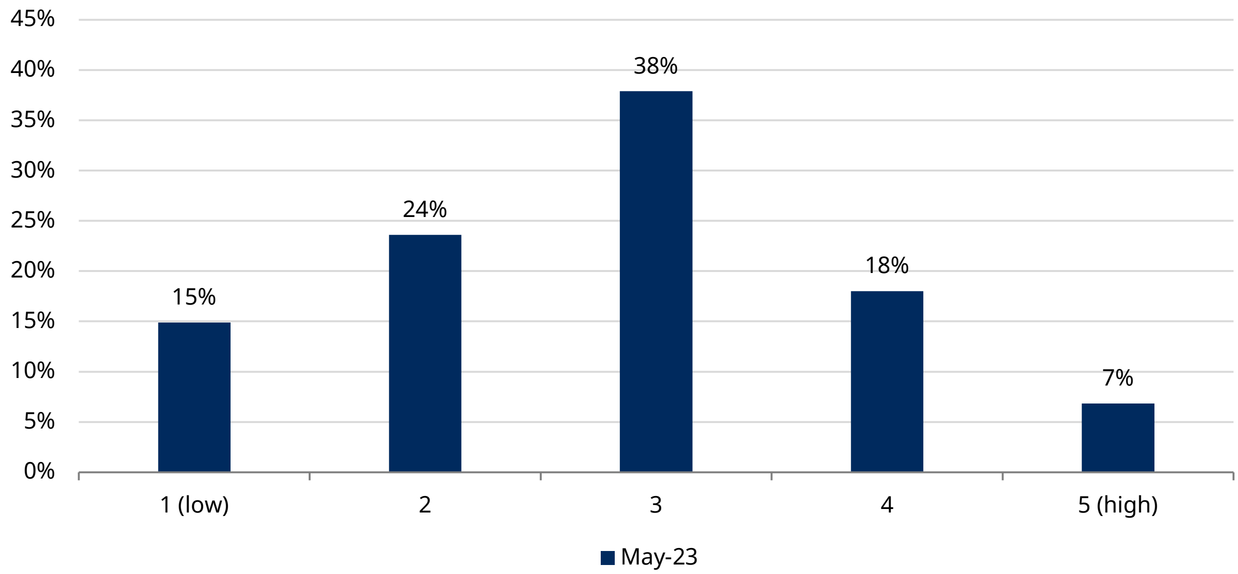
Of the four outcomes, assessing and describing fair value was identified as the most difficult outcome to prepare for, closely followed by confirming consumer understanding.

Perhaps it is therefore no surprise that 59% of advisers felt that the fair value outcome would put pressure on the ongoing charging model. Having identified back in 2020 that 90% of advisers' clients are put into ongoing charging structures when many have ongoing servicing needs that don't require this, the regulator appears to made this a focus area and it will be interesting to see how this debate plays out over the medium to long term.

The area where advisers felt most comfortable was the management of vulnerable clients. 53% of advisers surveyed indicated that this was straightforward to prepare for.

In our experience, many advisers are still developing their understanding of their obligations as a manufacturer, whether this is in relation to their advice service or in delivering their own model portfolios. The fair value outcome needs to be considered in this respect, with evidence of a clear target market and documentation of fair value assessments for portfolios. 25% of advisers believed that the introduction of Consumer Duty would lead to increased outsourcing of some or all of their investment proposition and we believe that this could be a significant factor.

On a scale from 1 (low) to 5 (high) what impact do you think Consumer Duty will have on your business?



Artificial Intelligence (AI)

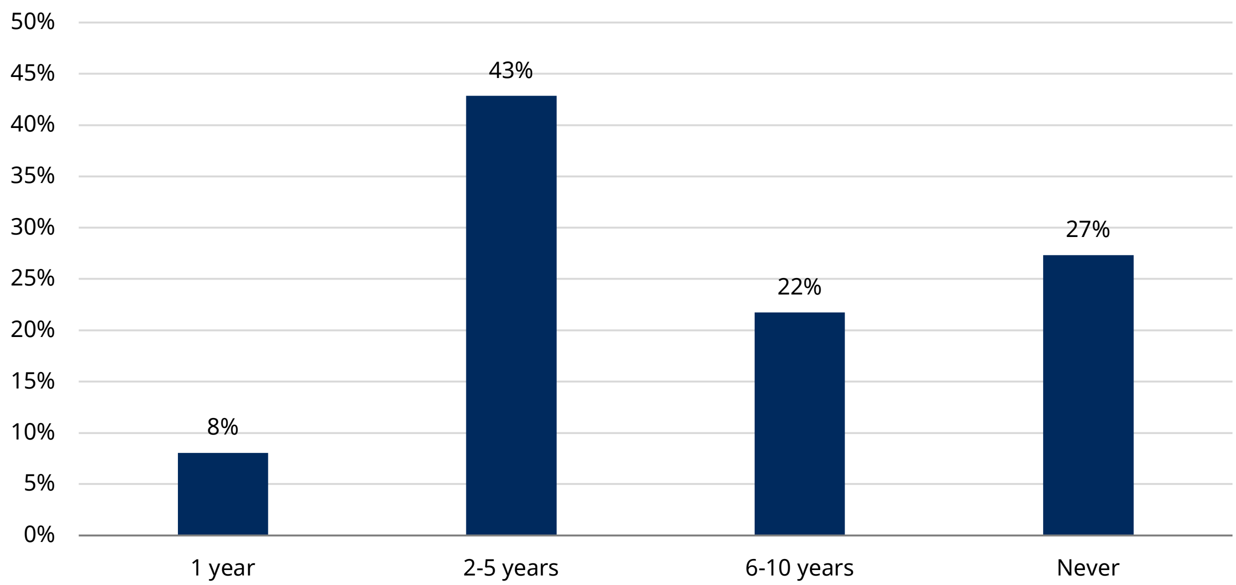
Given the significant focus on the rise of AI, the challenges and opportunities which this could present for wider society as well as the financial services industry, the survey presented an opportunity to ask advisers for their views.

57% of the advisers surveyed think that the development of AI technology applications such as ChatGPT represents a potential opportunity for their business while 43% see it as a potential threat. It's far too early to understand exactly where this might impact our lives and our jobs but fascinating that such a high percentage of advisers see this as a threat.

Despite the potential threat, 73% of advisers anticipate incorporating AI based technology applications in their advice process in some way in the future and we are already hearing of examples of where this is being used to help with suitability reports, KYC processes and client correspondence etc.

Only 8% of advisers expect AI to be incorporated in their advice process in some way within a year. This isn't surprising given how new the recent AI applications are and how people are still working out how they may use them. However, the potential is clearly recognised by many advisers and 43% expect this to happen two to five years from now.

How soon would you anticipate incorporating AI based technology applications in your advice process in some way?



Key takeaways

As ever, our Financial Adviser Pulse survey delivers much for us to consider and focuses on what is on advisers' agendas at the moment.

There is no doubt that Consumer Duty is the 'hot topic' and will continue to be so for the remainder of 2023; our main survey in November will no doubt deliver greater insight as to the implementation of this. Whether it will result in an increase in outsourcing will be interesting but we are always open to conversations about where we can provide support.

It was encouraging to see an increasing focus on AI. If harnessed appropriately, this must deliver some benefits to advisers and support the ongoing challenge of delivering great service cost effectively. I am excited about the future for this and to see how the industry will embrace and benefit from new technology.

Whilst markets have been challenging, it was no surprise to see advised clients continuing to focus on their capital and the loss of this being of greater concern than inflation and interest rates. However, it was also no real surprise to see the level of conversations with advisers around cash investments and benefitting from attractive rates. This is where great quality advice is so important – not only to discuss the benefit of long-term investing but if clients are adjusting plans to help out the wider family, can this be done tax efficiently and perhaps as an IHT planning opportunity?

Gillian Hepburn
Head of UK Intermediary Solutions

Get in touch

Schroders have a range of support and practical guides available, including:

– A practical guide to sustainable investing

– A-Z of sustainability terms for investors (client-facing)

– Net Zero: a guide for financial advisers

– A practical guide to intergenerational wealth transfer

– Taking the reins: female clients and the transfer of wealth

To find out more about these topics and our investment solutions, just contact your usual Schroders representative, call our Business Development Desk on 0207 658 3894 or visit www.schroders.com/investment-solutions.

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