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October 2022

Investment Review

Navigating Complex Markets

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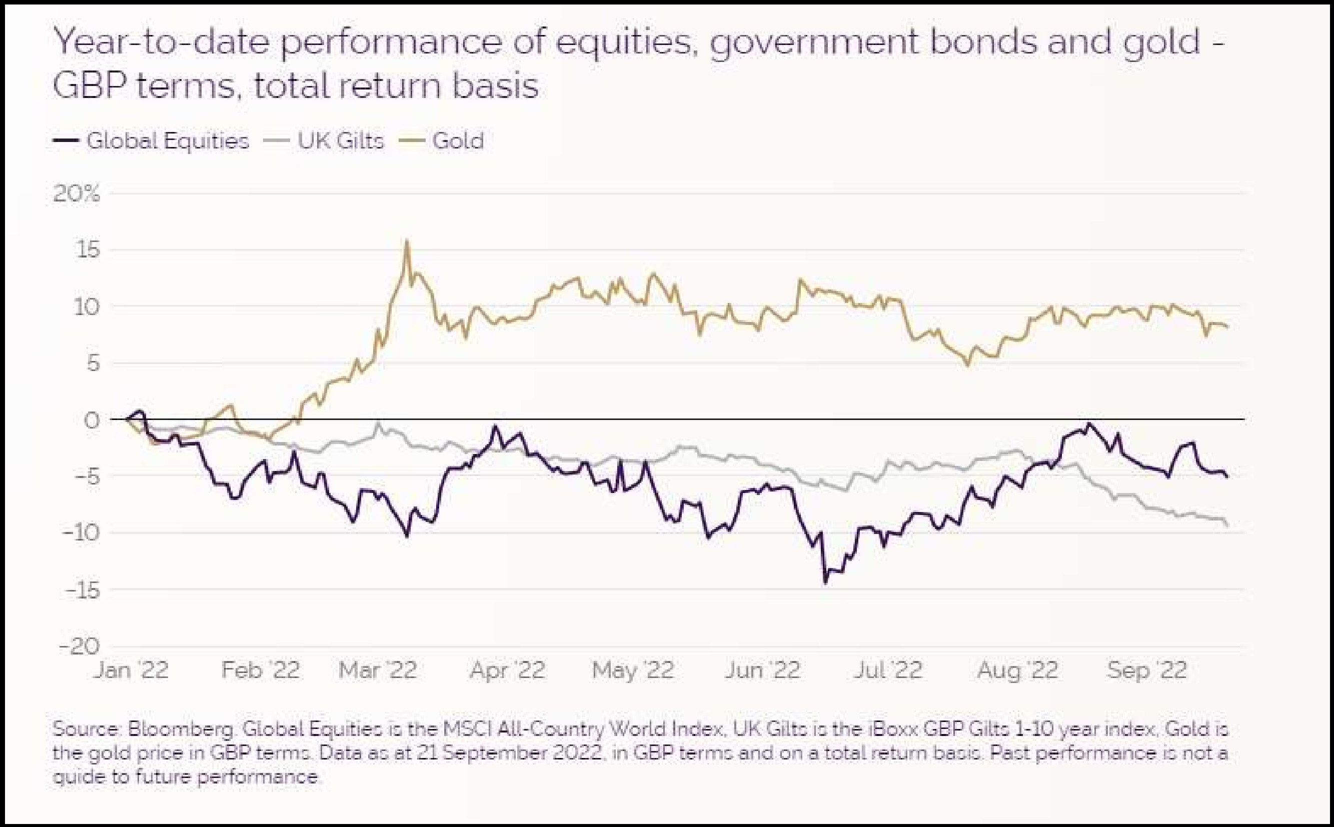
With markets and sentiments changing at pace in the UK, we recap and breakdown the latest market events and how they could impact portfolios.

While the UK was quietly observing a period of mourning following the sad passing of Her Majesty Queen Elizabeth II, stock markets have been returning to normal transaction volumes picking up following the usual summer lull. The issues that concerned investors before the summer; high inflation, rising interest rates and slowing global growth, continue to weigh on investors' minds.

How the performance of equities, bonds and gold has been impacted

The chart below shows performance of equities, government bonds and gold, in sterling terms and any income reinvested, so far this year.



As is often the case, equities have rebounded from the initial shock and subsequent lows of mid-June. This has left equities trading in a wide range as markets try to digest both positive and negative news. UK-based investors have benefited significantly from the relative strength of the US dollar against the pound. This is best illustrated by the performance of gold – in US dollar terms, gold is down 6.7% compared to a rise of 8.1% in sterling terms.

Investing in Bonds in a Challenging Climate

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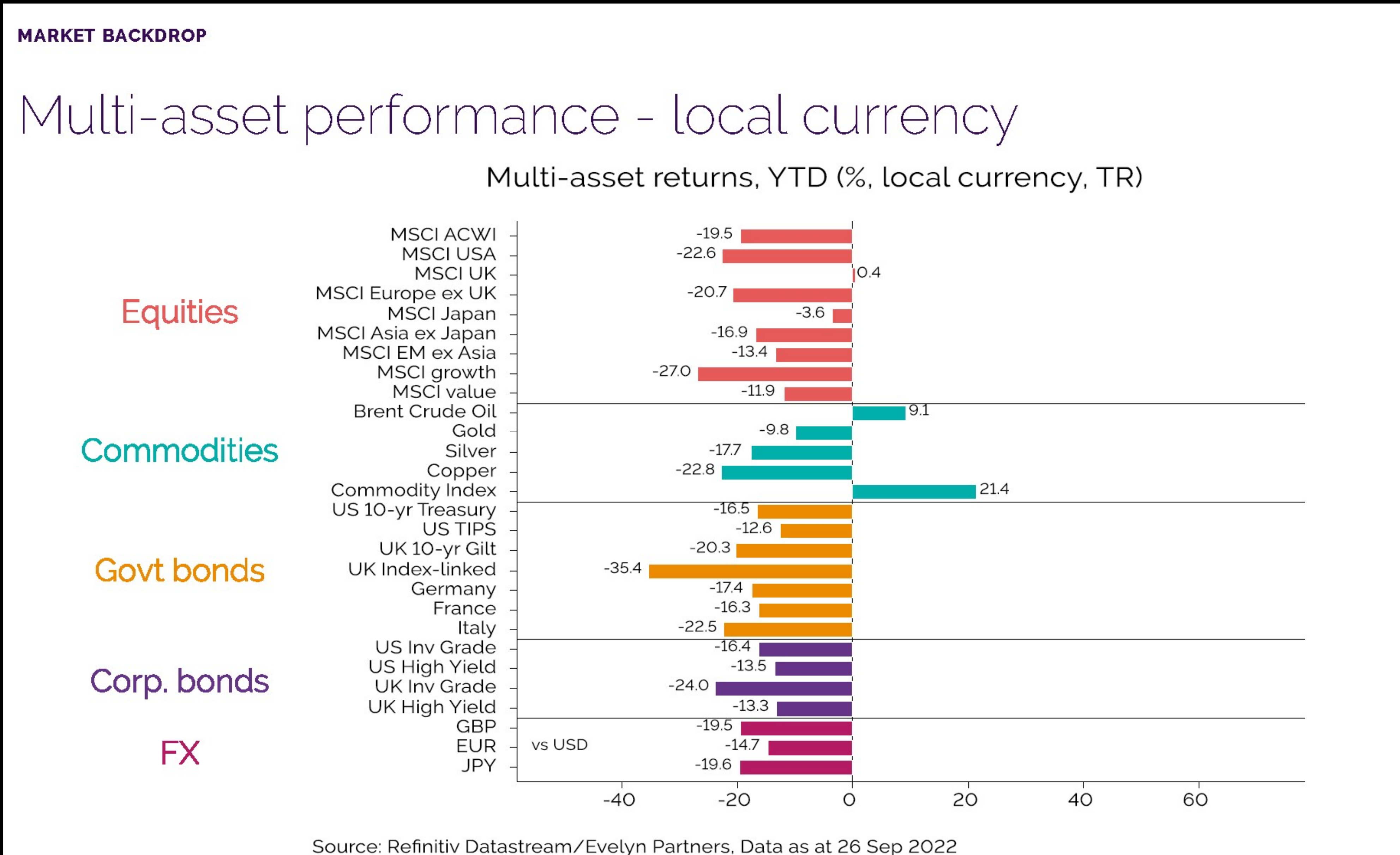
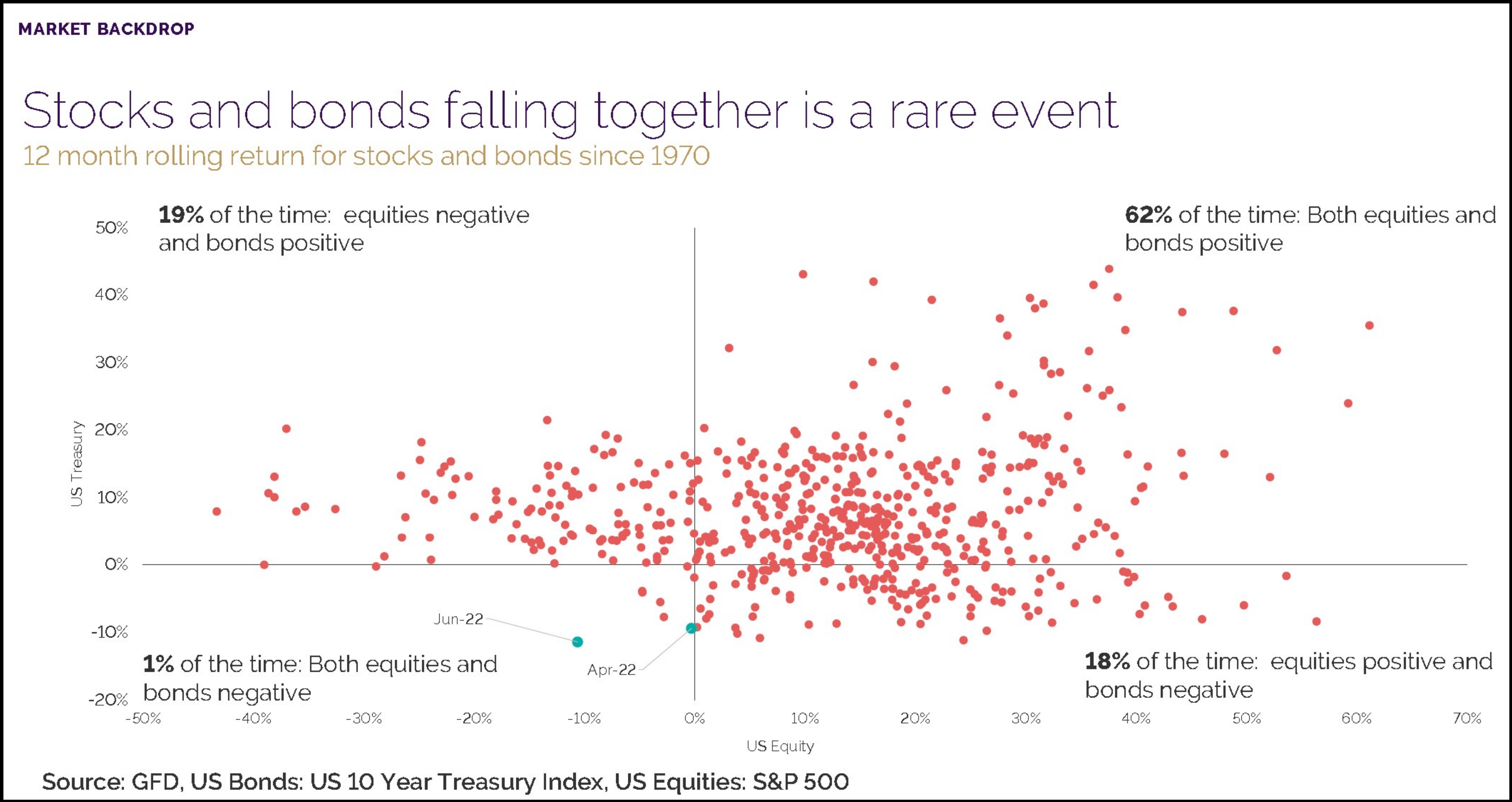
As central banks respond to inflation concerns with rapid rate hikes, government bonds continue to come under pressure and have generally underperformed equities so far this year. This highlights the importance of ensuring portfolios are **well diversified** not only in the equity portion, but also in non-equity components.

There are still a number of dynamics in play. Inflation continues to vex investors, with US Consumer Price Inflation (CPI) continuing to fall from its recent peak, but at a frustratingly slow rate compared to expectations. Here in the UK, inflation also dipped from 10.1% year on year in July to 9.9% in August.

The following chart is very interesting as it shows that year to date all asset classes except Oil have been negative, this is a rare occurrence in the markets.



This is highlighted in the following scatter chart which shows that since 1970 both equities and bonds have produced negative returns only 1% of the time.



Inflation to Peak Sooner

We expect inflation to peak in the coming months as the rise in energy prices feeds into the figures.

The announcement that the Government will cap energy prices may mean the peak will be sooner and lower than previously expected.

The precise timing is difficult to predict and after the peak, the inflation rate probably won't fall in a smooth line.

With central banks keenly focused on taming inflation, talk of a 'pivot' towards a softer approach to interest rates looks premature.

Fiscal Event Hits Sterling

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The mini budget on Friday 23 September introduced a raft of tax cuts and increased spending. This has raised concerns that the UK Government will have to borrow more and contributed to further declines in the stock market.

The impact in financial markets was felt most in currency, and the pound (already weak against the US dollar) fell to lows not seen since 1985 although this has since recovered following the intervention of the Bank of England.

Forward-looking Markets

Markets are currently being driven by the expectation of higher interest rates and higher inflation and the impact they have on disposable income and the cost of living.

In addition, sentiment plays a large role, and the escalation of the Russia-Ukraine war continues to weigh on investors' minds.

However, assuming inflation does come under control, it is important not to underestimate the stimulative effects that a reversal of current monetary policy (rising interest rates) can have – even if the economy continues to cool. Markets are forward looking, and a quick change in sentiment could help to drive a recovery in equities, while it is also worth remembering that company fundamentals also remain fairly robust.

Having spoken to various fund managers and analysts we believe that the markets have potentially reached a low point and the diversification of your investments is the key to a recovery once we see an uplift.

Mini Budget Summary – September 2022

Over the next few slide is a summary of the key points announced by the Chancellor in the new Growth Plan.

The following are subject to confirmation following today's announcement

Investments and Tax

Dividend Taxation

From 6 April 2023, the dividend tax rate will be reduced by 1.25%, meaning the tax rates will return to 7.5% or 32.5%. The additional rate of dividend tax will be abolished from April 2023.

Income Tax

From 6 April 2023, the basic rate will be reduced from 20% to 19%.

National Insurance Rates

National insurance rates for employers, employees and the self-employed will decrease by 1.25% from 6 November 2022 and the planned introduction of a separate social care levy from 6 April 2023 has been reversed.

Corporation Tax

The planned 6% increase to corporation tax rates will no longer take effect from April 2023 and corporation tax rates will instead remain at 19% regardless of the amount of profits the company makes.

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Off-payroll Rule Changes (also known as IR35)

The IR35 rule changes which came into effect in 2021 will be reversed and, as a result, from 6 April 2023 workers, such as contractors, who provide their services through an intermediary will resume responsibility for determining their employment status and accounting for income tax and national insurance.

Pensions

Tax Relief For Pension Contributions

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Basic Rate Tax Relief

The government brought forward the planned reduction in basic rate tax from 20% to 19% to 6 April 2023 (from 6 April 2024). Alongside this, they announced that there'll be a one-year transitional period for pension schemes operating the relief at source (RAS) method of claiming pension tax relief – schemes can continue to claim 20% tax relief on pension contributions until 5 April 2024.

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This will benefit members of pension schemes operating relief at source schemes but means that those contributing to occupational pension schemes where the employer operates the net pay arrangement, such as Master Trusts, will get 1% less tax relief on their pension contributions for the 2023/24 tax year.

There's currently no information on how this transitional period will affect Scottish taxpayers, who currently get 20% tax relief on contributions where earnings are subject to the 19% tax band and who can claim a further 1% tax relief on contributions where they pay income tax at 21%.

Salary Sacrifice

The change in employer and employee National Insurance (NI) rates from 6 November 2022 will affect salary sacrifice calculations. The employer NI saving will change from 6 November 2022 from 15.05% of the sacrificed amount to 13.8%, and the employee NI saving will similarly reduce from 13.25% to 12%.

Adviser Contact Details

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