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Points of View

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TABLE OF CONTENTS

Market Overview from Parmenion Investment Management

March saw some welcome signs of stability in global financial markets as the US Federal Reserve (Fed) held off from raising interest rates whilst maintaining a particularly dovish tone.

The reiteration of a policy of 'lower for longer' interest rates mean that the US Dollar weakened considerably. This had a significant positive impact on the developing world. Some stability in the oil price also placated worried investors.

The best performing equity markets were Emerging and Asia Pacific which returned 7.84% and 6.56% respectively. The developed markets all managed to deliver positive returns ranging from 0.86% in the UK to 1.91% in Europe.

Credit markets also performed well given the more "risk on" environment. Sterling Corporate Bonds returned 3.16%. As one would expect, Gilts performed less strongly although ended the month virtually flat, highlighting the importance of a well-diversified portfolio.

Overall, the first quarter of 2016 has been rather challenging but has actually yielded decent returns for those investors who have held their nerve. Our full review of the quarter will be included in the QIR and IQ reports which will be available shortly.

UK

We have seen Sterling weaken as investors begin to focus on the referendum on 23 June, commonly referred to as Brexit. If Sterling weakness persists we could see a pickup in inflation which may bring forward market expectations of our first interest rate rise.

The high exposure to oil, gas and mining sectors in the UK stock market means that there are pockets of value for the brave investor although it would appear that global investors are holding off committing capital to UK companies until the outcome of the June referendum is known. The featured article in this month's QIR will discuss Brexit and its implications in more detail.

US

Any expectations of a rate rise in March were dashed as the Fed maintained its dovish tone. This has a marked impact on global markets but should also allow the US consumer to continue spending and keep the economy on track.

Whilst not spectacular, GDP growth in Q4 of 2015 has been revised up to 1.40% and job creation remains relatively strong. The non-farm payrolls increased by 215,000 in March, significantly higher than the estimated 205,000. This, and other data out of the US, continues to make us believe that the US will avoid a recession in the short term.

Europe

Mr Draghi fired off yet another "big bazooka" in March in his attempt to stoke inflation in Europe. Not only was the ECB deposit rate cut to -0.40% (yes, minus 0.4%) but the quantitative easing (QE) programme was ramped up from €60bn to €80bn per month.

However, the effects on financial markets appear to be diminishing which would seem to indicate that investors may be beginning to lose their faith in Signor Draghi.

It is interesting to note that ECB focusses on headline inflation when assessing its "near 2%" target which is a figure hugely distorted by the swings in energy costs. Should the oil price rally, then Draghi may be able to claim victory over the threat of deflation despite the mechanism for the increase in the inflation rate having had nothing to do with his extraordinary policies.

Japan

Japanese equities performed well over the month delivering 1.87%. Data suggests that there are tentative signs of nominal and real wage growth in Japan which would be a major coup for Shinzo Abe and his "Abenomics". If the trend becomes firmly established then the hope is that the public will become consumers rather than savers and so help lift Japan out of its deflationary quagmire. However, the savings culture is deeply engrained in Japan and the central bank must tread carefully to ensure that its policy of negative deposit rates actually feeds through into accelerating credit growth rather than simply hobbling Japanese banks.

Emerging markets

The headwinds facing the emerging markets, namely, a stronger dollar, lower oil prices and uncertainty from China all abated this month, resulting in strong gains from both the wider emerging and Asia Pacific markets.

Should the data coming out of China continue to improve and the Fed maintain its dovish tone, resulting in a continuing weaker Dollar, then better sentiment towards these regions may cement itself. Many areas in the emerging markets look attractively priced both relative to the rest of the world and their own history, which means that long term performance from here could be very attractive.

First published on 7th April by Stephen Lennon of Parmenion Investment Management.

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Budget Overview March 2016

In a budget said to focus on "the next generation", George Osbourne announced a number of new opportunities specifically aimed at savers under 40, families and small businesses.

Below is an overview of the key announcements and how they affect individuals, companies and trustees.

Personal Taxation

- The tax-free personal allowance, which is set to rise to £11,000 on 6 April 2016, will be increased to £11,500 from 6 April 2017.
- The threshold at which people pay higher rate income tax will rise from £42,385 to £43,000 from 6 April 2016, and will rise again to £45,000 for the 2017-18 tax year.
- From April 2017, the government will introduce a new £1,000 allowance for property income and a £1,000 allowance for trading income.
- Individuals with property income or trading income below £1,000 will no longer need to declare or pay tax on that income.

Capital Gains Tax

- Capital Gains Tax to be cut from 28% to 20% for higher rate and from 18% to 10% for basic-rate taxpayers (However the 28% and 18% rates will continue to apply for carried interest and for chargeable gains on residential property.)
- There will be an 8% surcharge for gains on residential property. This is effective from 6 April 2016.
- The annual CGT exempt amount available from 6 April 2016 will remain at the current level of £11,100.

Pensions and savings

- Annual ISA limit to rise from £15,240 to £20,000.
- A new "lifetime" ISA for the under-40s was launched, with the government putting in £1 for every £4 saved up until you reach the age of 50. It can be used towards a deposit on a first home worth up to £450,000. Individuals will be allowed to withdraw the savings at any time before they turn 60 for any other purpose but will lose the government bonus (and any interest or growth on the government bonus) and will also have to pay a 5% charge on the remainder. After an individual reaches 60, they can take out all the savings tax-free. Any contributions to a Lifetime ISA will sit within the overall £20,000 ISA contribution limit mentioned above.
- A consultation over the introduction of a 'pensions advice allowance' to allow people to withdraw savings, before the age of 55, to pay for regulated advice is to be launched. Up to £500 can be withdrawn tax free from defined contribution (DC) pensions to redeem against the cost of such financial advice.

Businesses

- Headline corporation tax to fall from 20% to 17% by 2020.
- The rate of tax payable on directors' loans will increase from 25% to 32.5% from 6 April 2016.
- Small business rate relief will be permanently doubled in England from 1 April 2017. Thresholds will also be increased to £12,000 for 100% relief and £15,000 for tapered relief. It is estimated that 650,000 businesses will benefit from either paying no business rates, or paying a tapered amount.
- The VAT registration threshold will increase in line with inflation to £83,000 from 1 April 2016.

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Stamp Duty Land Tax

- An additional 3% SDLT payable on the purchase of additional residential properties will come into force from 1 April 2016.
- No portfolio exemption will be in place from this additional charge.
- The qualifying time limit for an individual to elect to change their main residence will be extended to 36 months.
- Commercial stamp duty will be 0% on purchases of up to £150,000, 2% on the next £100,000 and 5% for the top rate above £250,000 effective from midnight 17th March 2016.
- A new 2% rate for high-value leases with net present value above £5m.

The overriding reaction has been a positive one, with a few unexpected surprises helping to boost confidence in the Chancellor's long term plans for the country. Residential landlords, however, haven't been left feeling quite so optimistic. With headline growth rates also being revised down to 2.0%, an air of caution still remains following slower economic growth than expected back in November last year.

To discuss the implications and opportunities of any of these changes, please contact your Finura Partners advisor.

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1.5 million over-60s are still "unprepared" for retirement

An alarming number of the UK's working over-60s population are unprepared for their retirement, according to findings from a new white paper published by Sanlam.

The statistics reveal that 1,665,000 of UK's non-retired over-60s population don't know how much money they have in their pension pot, whilst over a million are not aware of the pension freedoms which came into force last April. The report also suggests that fixed retirement age in the UK could be a thing of the past, with over a third of pre-retirees not envisaging being able to retire until after 70, and just under 500,000 who think they'll be working past 75.

The "Which way forward?" report, released a week ahead of the Government's spring budget, suggests that an increasing ageing population, the demise of generous final salary schemes and the pension freedoms introduced last April are all contributing to a radically shifting retirement landscape. As a result, as many as 1.5 million non-retired over-60s today feel unprepared for their future.

The report, which uses qualitative research, compares the attitudes of 1,000 people who have retired in the last five years with 1,000 over-60s approaching retirement. It suggests there are many who still feel in the dark about their retirement, with 29% saying they weren't aware of the new pension freedoms which the government introduced in April 2015.

The results are surprising, particularly given the new freedoms were intended to give future retirees more autonomy with their savings. Some 40% of over 60s admit that they are unaware of how much they currently have in their pension pot.

Running concurrently with this uncertainty, future retirees also now envisage a longer working life than previous generations. Less than 2% of pre-retirees anticipate retiring before the age of 61 and around 30% expect to still be working at 70 and beyond. In stark contrast, nearly half of those that were in retirement when questioned for the report had retired before the age of 61, and almost all had retired by 67.

The report suggests that fixed-age retirement has already become an outdated concept and will no longer be possible for the majority of the current working generation. Whilst Britons have traditionally worked towards a fixed retirement date, nearly half of pre-retirees now envisage partial retirement which is phased in over a few years, with only 3 in 10 expecting to retire outright or over a short period of time. The remainder of those questioned were undecided.

The face of retirement planning is changing. Following the Government's new pension freedoms introduced in April, people now have more choice as to how they use their pension pots. Although this gives people more flexibility to organise their finances, it also brings extra responsibility when making such important decisions. Sanlam's report provides deeper analysis of the current retirement process and an insight into changing consumer behaviour. The contrast between decisions made by those who have recently retired and now those approaching retirement clearly shows that a seminal change is taking place.

You can read more on this, including the full research paper here.

First published on 11th March by Sanlam UK.

Brexit: investors should prepare for UK stock market volatility

We now have confirmation that there will be an In/Out referendum on the UK's future in the EU on 23 June 2016. Unsurprisingly, this has seen significant media attention as both sides make claims and counter claims about the benefits of a vote in either direction.

It has to be said that the majority of these are politically driven rather than supported by hard facts, with the truth more likely to be somewhere in the middle. As a result, we would expect the impact on the UK economy to be less dramatic than that described in the media, with boosts being seen in some sectors being counterbalanced by negative effects seen in others, regardless of the outcome. Ultimately though, we just don't know what the long term impacts would be of leaving the EU and this uncertainty will likely cause further volatility in risk assets, in the UK and Europe, in the lead up to the referendum.

There are a number of key topics that people mention when discussing the impact of a 'Brexit', and as you would expect, each of them have potential impacts that are both positive and negative. Perhaps the most talked about in the media is what a Brexit would mean for the UK government in terms of having greater control over Britain's borders. It is arguable that Britain could see an increase in skilled workers entering the country through tighter migration controls; however, whether the UK gains any powers to restrict the flow of unskilled workers from Europe will depend on its future relationship with the European Union and whether it wants to retain access to the single market. Conversely, a reduction in unskilled migration could also cause potential problems for low-wage sectors of the economy that are heavily dependent on migrant labour, such as agriculture.

A Brexit would give Britain an opportunity to broker its own trade agreements with the rest of the world, something it has not been able to do as part of the EU. Although potentially beneficial, we should also remember that a significant amount of our exports are linked to European Union membership. Thus, a renegotiation of a trade agreement, outside of the single market, would be needed if the UK is to avoid paying trade tariffs. If a Brexit were to occur, it is fair to say that it would be a negative for the EU; Britain has a world-class financial centre that no other major European city is likely to match in the short-term, is a major contributor to the EU budget (10% of the total in 2015) and is a leading voice for free markets. It is, therefore, unlikely that the EU will 'play ball' during negotiations over new trade agreements with the UK in an attempt to discourage other separatist calls that are likely to arise, particularly from the troubled peripheral countries.

These are just two of the many questions facing voters as they try to decide whether the UK would be better in or out of the EU. The property market, foreign investment, the City of London, changes to regulatory and legal landscapes and the state of the country's finances will all be impacted by the outcome of the referendum. Again, the perceived impacts on these areas will be dependent upon the arguments you listen to and the way politicians try to influence voters. The thing to remember is that neither side is coming from a position of certainty, with their predicted outcomes being best estimates.

If the country does vote yes to leaving the EU then the biggest impact will be that there is likely to be pressure placed upon the value of sterling. This will benefit those large companies that operate globally and have earnings in currencies other than Sterling, but is likely to make life tougher for those companies focused on the domestic market. This means it is more important than ever to have a well-diversified portfolio, both in terms of sectors within the UK and regions globally. Although client portfolios do have exposure to UK equities this is balanced against a range of overseas equity funds and other asset classes such as fixed income. Exposure to overseas equities is going to be vital in navigating the coming months; the focus of investment portfolios being balanced with exposure in regions outside of the UK will help to limit the impact of any volatility seen in the UK markets.

We must stress, however, that whilst we do feel that this is largely a political issue and that the prospects for the UK economy are good, whether in or out of the EU, there will ultimately be some economic impacts, but purporting to quantify these with any accuracy would be misleading.

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