



**Harmonic**  
Financial Planning



**Client Update**  
**December 2023**



I want to thank all of our clients who were able to attend our Christmas drinks. The evening was a great success, and it was wonderful to see you all.

For those unable to attend, we'll host a similar event in the Spring with a musical theme and make sure to give everyone plenty of notice.

Wishing you and your families a happy and peaceful Christmas and New Year.

John Ditchfield and Matt Coppin.



# Key themes 2024

## Macroeconomic outlook

**A natural part of being human is that we crave some certainty and an indication of what the future has in store for us.**

Investors follow that pattern, with the last few weeks of every year becoming a blizzard of Economic Outlook events and seminars.

I've summarised below the contents from an excellent seminar given by Capital Economics in December which captured the main themes investment managers are debating at present. If anyone would like to receive a briefing on this or copies of the slides please let me know.

To step back from the natural herding effect that big money engenders, we use independent data providers with nothing to pitch other than accurate data. Our current choices are:



statista 



FE Analytics



Below is a summary of Capital Economics' forecasts for 2024:

- Growth (in GDP terms) is likely to undershoot consensus forecasts
- The Eurozone in particular, will stagnate with zero growth in 2024
- The great inflation surge will come to an end
- Interest rates will fall back sharply now
- There will be a cyclical recovery although China's growth will slow
- AI will be a powerful growth theme for the next decade, giving rise to a potential bubble in stock markets
- Elections will be a big issue with a US Presidential election in November.



## Macroeconomic outlook

### What does this mean for investors?

Weaker inflation and lower interest rates will ultimately benefit investors in stocks and shares. Given the challenging environment stock prices faced in 2023, we believe there is significant upside in 2024. The States' Congressional Budget Office predicted US inflation rate will [ease closer to Congress' 2% goal next year](#).

Significant risk factors that could unseat this narrative include a more [painful slow-down in China](#), worsening trade relations between China and the US, plus the risk that inflation might surprise on the upside i.e. remain higher for longer.

A Trump election victory in the US would certainly be a headwind for the global economy as this would reignite economic and political isolationism that is part of Trump's ideology. Indeed, 2024 is a massive year for geopolitics with Taiwan, Pakistan, Indonesia, Russia, India, Mexico, the US and South Africa all holding elections during 2024 ■

## Global Economic Updates

### China's Path to Recovery.

Opinions are divided on China's path to recovery. PwC China's Senior Economist [G Bin. Zhao says the country's economy is likely to pick up](#). He believes that key components including consumption, investment, government spending and net trade look poised for improvement in 2024.

According to the Qatar National Bank, [the uncertainty in China's growth is apparent in the 2024 forecasts](#). The maximum and minimum projections show a significant spread, ranging from the most optimistic forecast of 6.4% to the most pessimistic estimate of only 2.8%.

Regardless, we must remember that even a 6.4% growth is still lower than the country's peak GDP of 8.45% in 2021. Based on [Statista's research](#), the growth trajectory for the country is still moving in a downward direction.

### Geopolitics.

[The Russia-Ukraine war continues to fuel commodity prices at a time when supply is already tight](#). Risks emanating from a widening of the Israel-Hamas war into a regional conflict remain. Despite this, the global economy has proven resilient amidst the ongoing conflicts.

### Global Elections.

2024 will see 40 national elections across the globe, representing more than 40% of the world's population and 40% of its gross domestic product (GDP).

#### Key election dates:

<b>January</b>	Taiwan	Finland
<b>March</b>	Russia	Ireland
<b>April</b>	South Korea	
<b>June</b>	Mexico	Belgium
<b>November</b>	United States	

**UK Prime Minister Rishi Sunak** is also [expected to call an election in November 2024](#). India is also gearing up for a general election next year, though the specific election period is uncertain.





## Global Economic Updates

### Macro-economic indicators 2024.

**Inflation:** The [OECD expects Consumer Price Inflation to continue easing gradually](#) towards central bank targets in most economies by 2025.

**Interest Rates:** According to [Goldman Sachs' Research](#), policymakers in developed markets are unlikely to cut interest rates before the second half of 2024 unless economic growth proves weaker than anticipated. Their economists predict that inflation will remain modestly above target.

**Bonds:** Bond yields have fallen sharply as bond prices have risen. There has been a huge rally in bonds both in the US and UK, bringing down bond yields.

### Tax allowances ahead of April 2024.

The UK government's [2023 Autumn Statement](#) included the announcement that National Insurance (NI) rates are to be reduced and class 2 NI abolished. Other key points to note include:

- Details around the abolition of the Lifetime Allowance from April 2024 have now been published- this is good news for investors with pension assets over £1M.
- The government will consult on plans to give employees the legal right to have any new employer pay into their own chosen pension arrangement in a bid to achieve, at some future point, 'one plan for life'.
- There were no announcements on changes to inheritance tax ■

## Updated tax rates for 2024-25

### Individual Savings Accounts.

The annual subscription limits all remain at their current levels in 2024/25, i.e.

- £20,000 ISA
- £4,000 Lifetime ISA
- £9,000 Junior ISA (and Child Trust Fund)

The government will make changes to ISAs to simplify the scheme and widen the scope of investments that can be included in ISAs.

### Income tax.

- All income tax rates and bands remain at their current levels in 2024/25.
- Dividend Allowance Reduces from £1,000 to £500 on 6 April 2024.
- Dividend tax rates remain the same at 8.75% in basic rate band, 33.75% in higher rate band and 39.35% in additional rate band (and 39.35% for discretionary trusts).

### Capital gains tax.

Annual exemption reduces from £6,000 to £3,000 on 6 April 2024 (a maximum of £1,500 for discretionary/interest in possession trusts – shared between all settlor's trusts subject to a minimum of £600 per trust).

CGT rates remain as they currently are:

- 10% for any taxable gain that doesn't fall above the basic rate band when added to income and 20% on any gain (or part of gain) that falls above the basic rate band when added to income.
- For residential property gains, these rates increase to 18% and 28% respectively.
- Discretionary/interest in possession trustees pay at the higher rates (20%/28%) ■

# Analysis of 2023

## Monthly insights: COP28

COP28 produced many new funding and policy commitments, which should support a lot of the themes we invest in. That said, there's certainly much to criticise, and agreed actions still fall short of the scientific consensus around mitigating global warming.

Below are some initiatives we believe could impact some of our funds in the near future. If you want to find out more about COP28 pledges, [Carbon Brief](#) offers a great topic by topic overview.

### **Climate Finance**

- UAE's banking sector pledges \$270bn in green finance by 2030.
- Danish investment firm Copenhagen Infrastructure Partners announced plans to [raise \\$3 billion](#) for renewable projects in emerging markets.
- [Sequoia announced a \\$450 million commitment](#) to target the reduction of methane and other pollutants over three years.
- [Adani Green Energy announced a \\$22 billion investment](#) in renewables to advance India's clean energy goals.

### **Energy Transition & Decarbonisation**

- EU President Ursula von de Leyen launched a global pledge on renewables and energy efficiency along with the COP28 presidency and 118 countries (Note: China and India were absent from the initiative). This aims to triple installed capacity to 11 terrawatts by 2030.
- De Leyen also pledged to invest 2.3 billion Euros to fund the energy transition on behalf of the EU.
- A Private Markets Decarbonisation Roadmap (PMDR) was launched by Initiative Climate International and the Sustainable Markets Initiative Private Equity Task Force, supported by Bain & Company.
- The PMDR creates common decarbonisation language and approach for global private markets firms (known as General Partners or 'GPs'). The aim is to drive meaningful progress and analysis by creating more transparency on the current state of decarbonisation of investor portfolios ■



## December Feature: Will Oulton, Marine Conservation Society

### The New Sustainable Disclosure Requirements from the FCA.

At the end of November, the Financial Conduct Authority (FCA) published its long anticipated [disclosure requirement for investment funds](#), which are promoted as “sustainable” “ESG” or “impact” oriented.

Given the massive boom in sustainable investment funds and products, the FCA is keen to enhance disclosure standards for investment funds. The standards enable more meaningful comparisons between funds, and their providers. Another reason could be the intention to align the UK with their European counterparts. The EU launched the [EU taxonomy for sustainable activities](#) in 2020 to classify sustainable finance activities.

A key difference from the EU system is the introduction of a labelling regime by the FCA. This will come into effect at the end of July 2024. The labels will apply to funds seeking to achieve a positive sustainability outcome.

Several new labels will be launched, including: Sustainability Focus, Sustainability Improvers, Sustainability Impact and Sustainability Mixed Goals.

I recently caught up with **Will Oulton**, the new Chairman of our Investment Committee, and asked him for his thoughts on the new disclosure requirements and labelling system.

We were both surprised to see a 70% threshold for sustainable investments including for the Impact label - this is low compared to the EU system. Overall, the approach taken is to be welcomed as it'll likely drive interest in sustainable investing as has been seen in the EU.

However, defining what is and is not “sustainable” is likely to remain problematic simply because the word is used to mean so many different things. Therefore, advice is expected to remain an essential part of the process for many investors. We also expect the FCA to act to combat the “greenwashing” of investment products next year.



**Will Oulton**, Chairman of the Harmonic Financial Planning investment committee, and Non-Executive Trustee Director of the Marine Conservation Society.





## December Feature:

### Will Oulton, Marine Conservation Society

#### The macro problem of microplastics.

- About 12.2 million tonnes of plastic enter the ocean every year, with 0.95 million tonnes of this entering as “primary microplastics”. [Primary microplastics](#) are plastics of 5mm in size or smaller, and derive from the breakdown of larger plastic items.
- Microfibres from textiles are a big part of this problem.
- Globally, 840 domestic washing machines are in use, with **1kg** of washing releasing up to **1.5 million microfibres**.
- Microfibre filters on washing machines are currently the most effective solution to reducing the flow of microfibres into the ocean.

#### Investor Engagement.

- [First Sentier Investors](#) convened and led a group of 30 institutional investors to investigate this issue. The group talked to manufacturers and marine scientists from the [Marine Conservation Society](#), and came up with these objectives:

##### Objectives

*Domestic and commercial washing machine manufacturers commit to adding microfibre filter tech as standard to all new washing machines produced in future*

*Influence policy makers to implement legislation prohibiting the sale of new machines without built-in filter mechanisms (as is the case in France)*

##### Timeline

*Assess companies positions by the end of 2023*

*From 2025 onwards*

#### Progress.

- 13 major washing machine manufacturers engaged to date: Samsung, Whirlpool, Midea, Hitachi, Panasonic.
- The group has engaged with UK policymakers, encouraging the government to prioritize mandating microfibre filters in all new washing machines by 2025.
- To find out more, reach out to Rhys Foulkes ([rhys.foulkes@firstsentier.com](mailto:rhys.foulkes@firstsentier.com)), or visit [MCS's website](#) ■

## Market Returns

2023 has been a stronger year for markets, witnessing a surge in equities as inflation cooled across both developed and developing countries. Leading the charge has been the US, where the S&P 500 has returned 16.42% a year to date, although this growth has been overwhelmingly concentrated in the big 7 mega-cap tech companies off the back of the AI story.

Signs that we might have reached a peak in the rate hiking cycle have breathed new life into growth stocks and smaller companies. However, China has stood out as a notable exception to this good news as its path to recovery has faltered.

Market	1 month	2 months	6 months	1 year	3 years	5 years	10 years
<i>Index : AFI Balanced TR in GB</i>	2.91	1.9	1.84	3.1	0.4	3.75	4.7
<i>Index : Cboe UK 100 TR in GB</i>	2.97	1.6	1.76	4.87	8.93	6.03	5.49
<i>Index: Cboe UK Small Companies TR in GB</i>	9.28	5.16	3.17	12.92	10.98	8.01	6.37
<i>Index : FE UK Property Proxy TR in GB</i>	-0.31	-0.28	-0.41	-2.05	1.21	0.37	3.81
<i>Index : MSCI World TR in GB</i>	2.53	3.11	6.91	14.29	8.73	11.13	11.54
<i>Index : S&amp;P 500 TR in GB</i>	1.87	3.12	8.39	16.42	11.13	13.18	14.46
<i>Index : Nasdaq 100 GTR in GB</i>	1.62	4.97	12.39	38.6	12.22	20.33	21.06





## Market Returns

Market	1 month	2 months	6 months	1 year	3 years	5 years	10 years
<b>Sector : IA Tech &amp; Tech Innovation TR in GB</b>	4.88	6.55	8.09	30.07	5.13	15.44	15.79
<b>Sector : IA Asia Pacific Ex. Japan TR in GB</b>	-0.85	-2.09	-4.49	-4.43	-3.59	3.95	6.55
<b>Sector : IA China/ Greater China TR in GB</b>	-6.6	-9.88	-11.97	-19.83	-15.22	-1.6	3.96
<b>Sector : IA Global Emerging Markets TR in GB</b>	-0.12	-0.77	-1.63	1.66	-4.19	2.54	4.45
<b>Sector: IA UK Gilts TR in GB</b>	2.34	3.54	2.95	-3.78	-10.62	-3.63	0.72
<b>Sector : IA Sterling Corporate Bond TR in GB</b>	2.65	4.38	5.3	3.75	-4.51	0.5	2.3
<b>Sector : IA Global Corporate Bond TR in GB</b>	2.38	2.87	2.8	2.84	-3.07	1.25	4.15

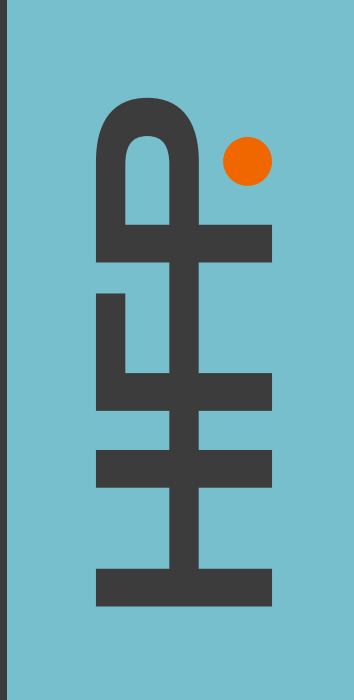
11/12/23 - Data provided by FE Fundinfo



**Merry Christmas  
and Happy 2024!**

The Harmonic Financial  
Planning team would like to  
wish everyone a wonderful  
Christmas and a happy 2024!





# Harmonic

Financial Planning

**[WWW.HARMONICFP.COM](http://WWW.HARMONICFP.COM)**

Harmonic Financial Planning is a trading name of Impact Lens Financial Planning which is authorised and regulated by the Financial Conduct Authority: 969159. Registered in England and Wales. 13746335 at 180 Piccadilly, London, United Kingdom, W1J 9HF. Head office: Unit 2, 42 High Street, Eccleshall, ST21 6BZ.