Client Update
March 2024

Photo Immo Klink, Brian Eno's Face to Face installation at the Fête of Britain, Manchester

About 30 years ago, my then-employer asked me to travel to London to interview a fund manager called Clare Brook. Interviewing over, I decided my prospects in the City might be better than in the not-so-boom town[1] of Preston in Lancashire.

My meeting with Clare was at the reasonably impressive No 1 Poultry, and I was also hugely impressed with her energy and drive for sustainable investing. Although, it was more likely to be called "ethical investing" at that time.

I headed to London and started working for a rather hopeless brokerage in Wimbledon, which was more interested in selling film partnership investments[2] to footballers than arranging anyone's investments!

I was fired after about six months by a rather angry Managing Director who could not understand my interest in sustainable investing.

This led me to the door of a former insurance salesman and part-time mystic called Geoff Griffiths and the rest is not of any historical importance, but it has been tremendously enjoyable.This was the firm which grew to be the largest national specialist in sustainable investing which was eventually sold in 2014.

I first registered with the FCA as an Adviser at Barchester in 2000, so I am now close to a quarter century in the industry.

John Ditchfield

1 In 1850 Karl Marx visited Preston and described it as the "next St Petersburg" following the industrial boom led by Richard Arkwright's Water Frame used for spinning cotton which had a huge impact on the mills of Lancashire.
2 Used to finance Casino Royale which was Daniel Craig's first outing as Bond.

What's changed that's significant for our clients?

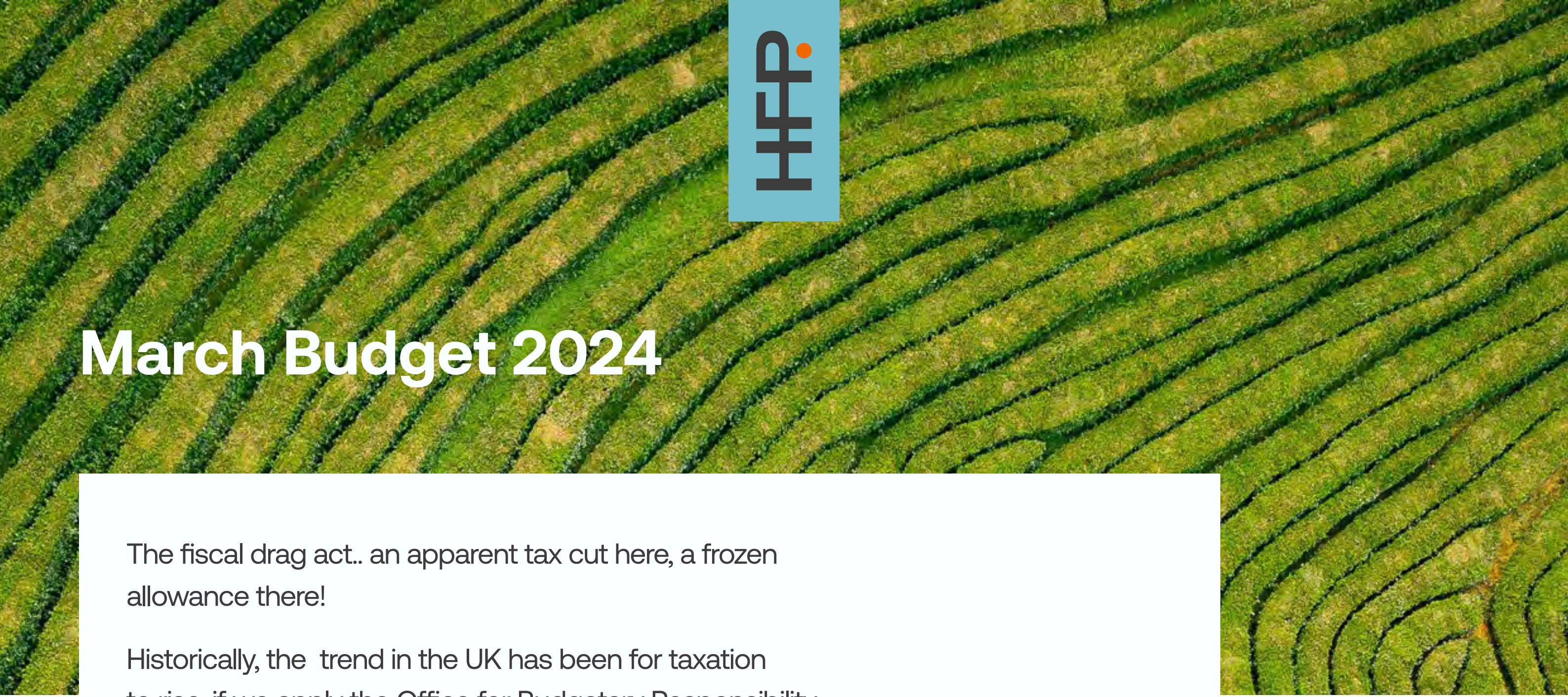
A combination of European and UK regulatory action means that client outcomes are paramount… why did it take so long you might reasonably ask!

In 2000, this was not the case, with the focus being on the obscure world of commission payments, which meant that your "adviser" was employed by an investment firm. A combination of the Retail Distribution Review and now the Consumer Duty Rules means that advisers are legally required to deliver a transparent service to clients and are very much the "fiduciary" of the client.

The next wave of change will be driven by technology, bringing risks and benefits; there will be Artificial Intelligence-generated scams and "deep fakes" of an entirely new order. But on the plus side, we expect much-improved accessibility and transparency overall. Interestingly, this may even be a period of information overload, and people in their 20s and 30s have reported to me finding the sheer range of service options quite bewildering. At Harmonic, Matt is currently loading client data onto our back office platform so that clients will have access to all of their information on our back office system, giving all clients access to their information via a Client Portal. This will create a more secure environment for client communications and help guard against scams and fraud.

The United Nations Board Of Significant Inspiration inspires visitors at the Fête of Britain, Manchester with its interactive marble run.

Photo Immo Klink.



March Budget 2024

The fiscal drag act.. an apparent tax cut here, a frozen allowance there!

Historically, the trend in the UK has been for taxation to rise, if we apply the Office for Budgetary Responsibility (OBR) measure of tax as a percentage of GDP- there's an interesting report from OBR here on exactly what this means.

At present, one of the few things the main parties in Westminster can agree upon is the need for enhanced economic growth and reducing the debt burden. This would help to reduce the daunting debt-to-GDP ratio the UK currently faces, which stands at 100% of GDP, equating to a debt of £2,654,000 billion. That's 27.6% below average among G7 nations, but still a formidable amount for a relatively low-growth economy like the UK.

However, with the twist that this may be the last major fiscal event before the next general election, the Chancellor has steered away from tackling the national debt and instead introduced reforms designed to woo voters as the Conservative government tries to reduce its deficit in the polls ■

March Budget 2024

Main policy announcements

National Insurance
Undoubtedly the headliner grabber is a 2% cut in the main rate of employee National Insurance contributions from 10% to 8%, taking effect from 6th April 2024.This follows an earlier 2% cut in last Autumn's Statement. The maximum saving here would be £754 per annum.

The National Insurance on self-employed earnings (Class 4 NICs) will also fall from 9% to 6%. Combined with the abolition of the requirement to pay Class 2, this will save an average self-employed person on £28,000 £650 a year.

"Non-dom" Status Abolished
The cost of cutting National Insurance will be partially offset by modernising the income tax treatment of UK residents who have their permanent "domicile" abroad. This measure is aimed at the UK's population of very wealthy individuals with overseas assets. Fortunately, there is a transitional regime in place to help them adjust to the new rules!

These changes, while complex, are not likely to directly impact the majority of the population, but are estimated to raise a yearly additional tax revenue of around £2.7bn from 2028/2029.

Income Tax

- All income tax rates and bands will remain at their current levels in 2024/25.,
- Given that wages have been rising in line with inflation, the real effect of this on individuals is that more people are likely to move up a tax band and pay the higher additional tax rate on their income.
- The personal allowance will stay at £12,570, with income over that level taxed at 20% in the basic rate band, income above £50,270 taxed at 40% in the higher rate band, and any income over £125,140 taxed at 45% in the additional rate band.

March Budget 2024

Main policy announcements

Individual Savings Accounts
The annual subscription limits all remain at their current levels, i.e.

- £20,000 ISA
- £4000 Lifetime ISA
- £9,000 Junior ISA

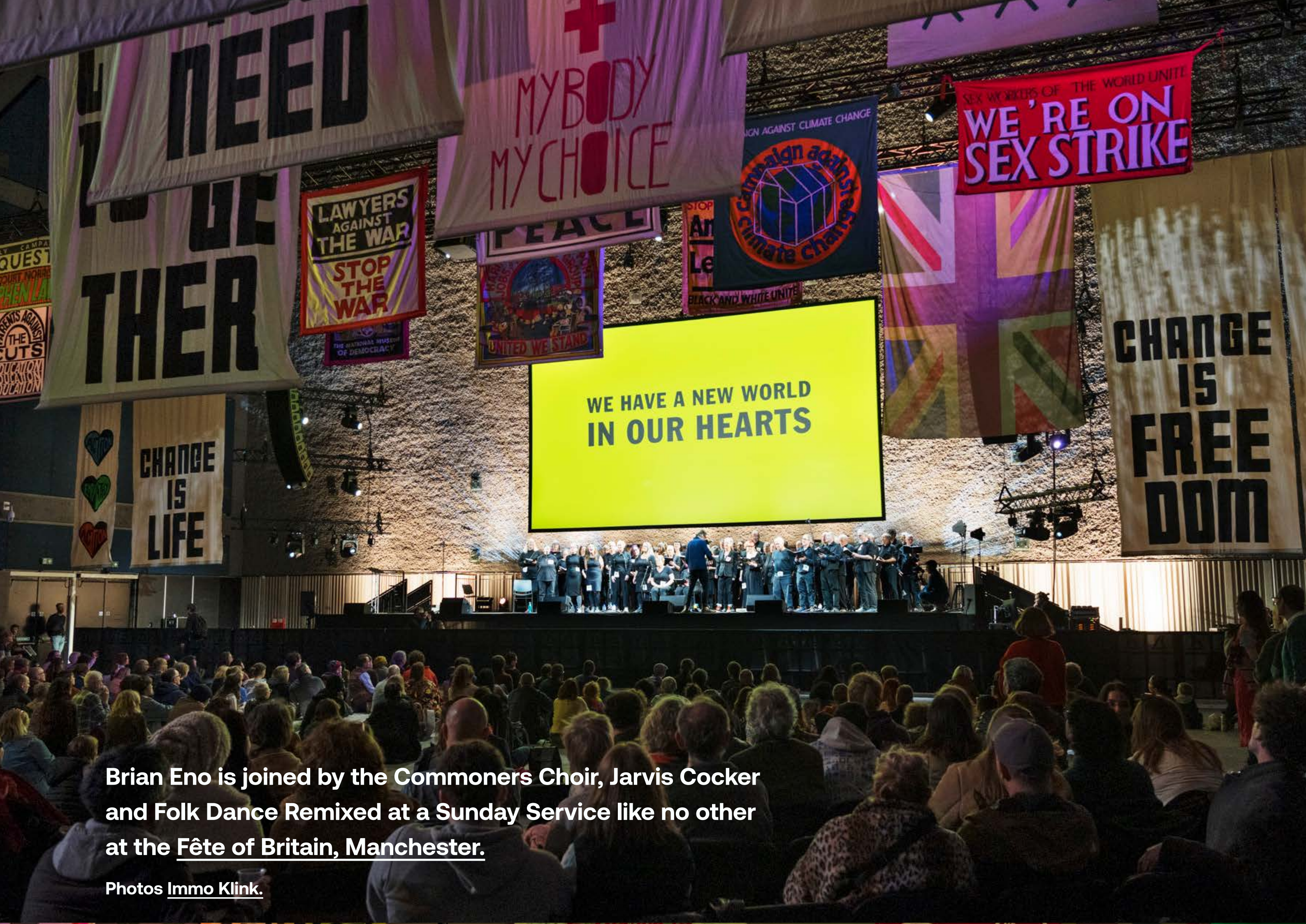
A "Britain ISA" is still in the planning stage, but consultations are open to allow another £5000 for personal ISAs that can be invested in UK companies. This is no bad thing, as the UK has some excellent businesses and, in global terms, a relatively undervalued stock market.

Capital Gains Tax
The Chancellor reduced the tax due on the sale of a "buy-to-let" or other second property by 4%.This was done by altering the higher rate surcharge from 8% to 4%, so will benefit people with larger gains on property wealth.

Inheritance tax:
Despite a lot of noise about a planned giveaway in this area, no changes materialised, except for provisions affecting non-domiciled UK taxpayers

Pensions
No major changes were announced, apart from the introduction of a Value for Money framework aimed at encouraging UK pension schemes to invest more in domestic businesses.

Tax Rises
Starting in 2026, there will be new or increased taxes implemented on vapes, tobacco, and business class flights. Additionally, tax breaks for owners of holiday lettings will be eliminated, while the windfall levy on oil and gas producers will be extended by one year until 2029 ■



Brian Eno is joined by the Commoners Choir, Jarvis Cocker and Folk Dance Remixed at a Sunday Service like no other at the Fête of Britain, Manchester.

Photos Immo Klink.

Macroeconomic and Market

The last six months have generally followed market expectations set towards the end of 2023, with smaller and medium-sized companies doing well as inflation gradually cools, and indicators for interest rates suggest we should see lower rates in the US and Europe later this year.

The Federal Chairam, Jay Powell, has made it fairly clear that rates are headed downward later this year and the market is pricing a quarter-point cut by July.

Sticky Global Inflation

John H. Cochrane, Senior Fellow at Stanford University, writes in a recent IMF article that:

“inflation forces us to face the fact that ‘supply,’ the economy’s productive capacity, is far more limited than most people previously thought.”

There’s no doubt that global growth exceeded expectations in 2023, particularly in the US where the economy proved to be far more resilient than anticipated. However, the inflation numbers continued to decline, boosting markets.

JP Morgan analysts expect global core inflation will settle around 3%, falling short of the previously projected 2% by mid-year.

Geopolitical tensions in the Middle East, namely the Red Sea, are forcing many shipping companies to lengthen journeys between Europe, Asia, and US East Coast all raising insurance and fuel costs. For perspective, Asia-to-North Europe rates more than doubled to above $4,000 per 40-foot-container in the early start to January. These transportation flows in the Middle East and continued blockages in Panama Canal are potentially forces that if sustained, could start adding upward pressure to consumer price inflation in coming months. But at the very least, it will be an inflationary pressure.

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Macroeconomic and Market

US-China

Further structural changes to the global economy may keep interest rates higher for longer- mainly if we see more isolationism from the US; this could also stoke higher global inflation. Liontrust's Chief Investment Officer presented this scenario at their recent Investment Forum, suggesting that the factors that have served to reduce inflation over the past fifteen years are now receding. It's generally accepted that China's entry into the global economy helped keep inflation low during the early part of the century but as China's economy slows and its population ages, how will this impact the global economy?

The case put forward was around:

- Increased resource scarcity- mining for resources is generally more costly and difficult. Our research portal, Statista, was broadly in agreement with this.
- A more fragmented global economy and the rise of trade wars, especially between the US and China. This seems likely especially if there is a Trump victory in the US. Capital Economics also sees continued global fracturing of trade as a significant theme for the future IF Trump is re-elected in the US.

In their January update on the US economy Capital Economics argue:

- Trump's planned 10% universal tariff on all imported goods together with a 60% rate on Chinese goods would subtract around 1.5% from US GDP and potentially fuel further inflation in the US.
- The resulting trade war would negatively impact household incomes and hit US exporters and accelerate the shift to a world split into two large economic blocks with China on one side and the US on the other.

This scenario would appear to be a plausible outcome given the comments Trump has made so far as part of his campaign agenda. The Economist's data on voting intentions has Trump in a narrow lead ahead of the current President Joe Biden.

Key Dates in the US are:

- Sept 16th Presidential Debate
- Nov 5th Election Day
- Jan 6th 2025 Result Certification
- Jan 20th 2025 Inauguration day

Macroeconomic and Market

Why 2024 could be the year for global smaller companies

The most distinct market trend over the past few years has been the lagging performance of small-cap shares. However, analysis of market downturns over the years indicates that when the smaller company segment emerges from a period of market drawdowns, the recovery can be rapid. The graphic below shows that small-cap shares, traditionally a source of growth for investors with a greater risk appetite, are potentially positioned at a discount.

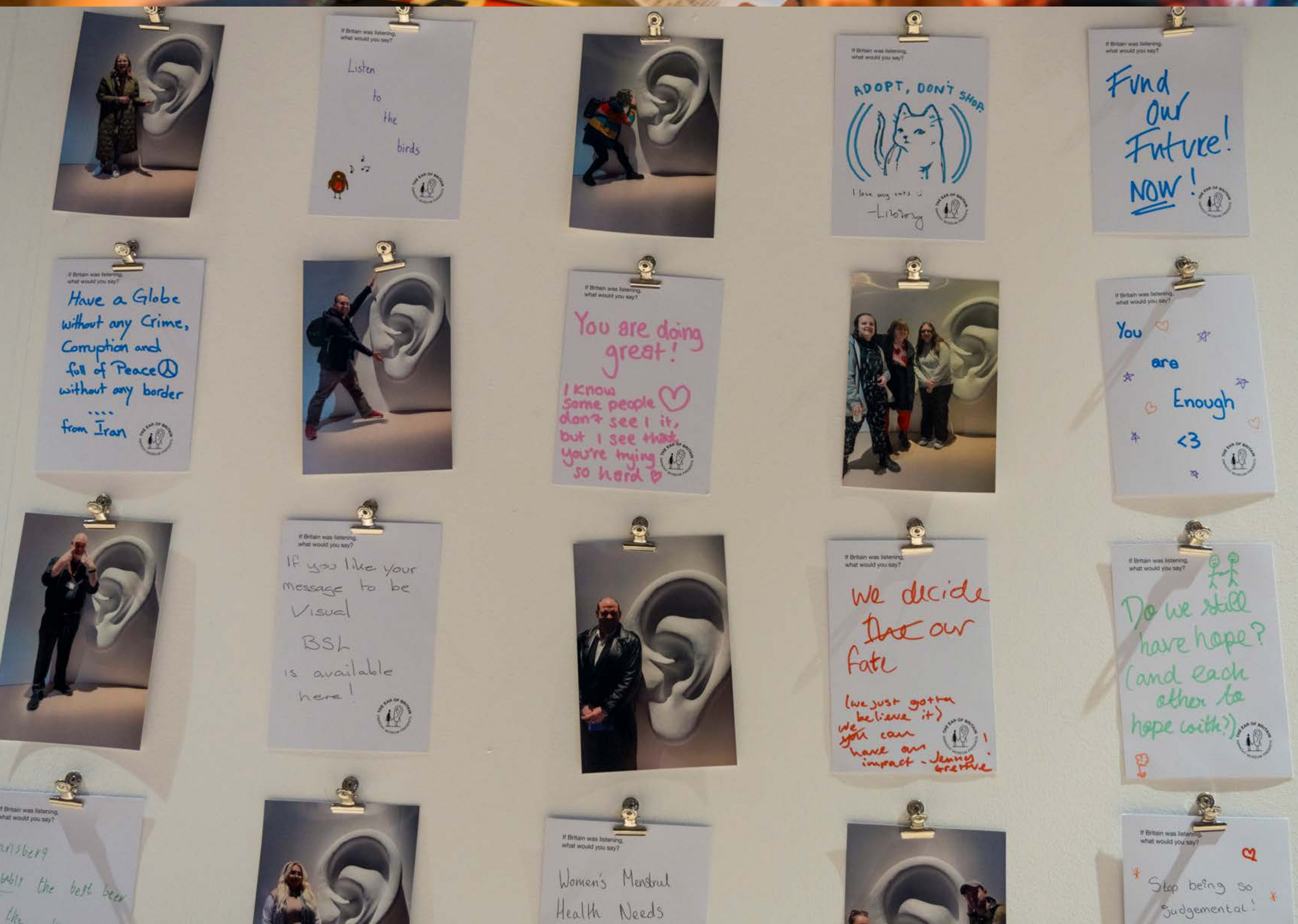
Take the 2008 global financial crisis as an example. The usual outperformance of small-cap stocks shifted amid the crisis as these companies felt the challenges far more than their larger counterparts. Despite their initial struggles, small-cap stocks demonstrated a quicker rebound post-crisis and continued to outperform ■

Relative return of small caps over large caps (% of rolling three-year)

Sources: Capital Group, MSCI, Refinitiv. As of December 31, 2023. Large caps are represented by MSCI ACWI. Small caps are represented by the MSCI ACWI Small Cap Index. Returns use cumulative total returns in USD, on a three-year rolling basis.

The future of democracy and listening to the people were key themes that featured throughout the Fête of Britain.

Photos Immo Klink.



Market Returns

The table demonstrates the performance of £100 lump sum investment across various markets and asset classes, showing what the respective results of investing over the specified time periods would have been.

Market	1 month	2 months	6 months	1 year	3 years	5 years	10 years
Index : AFI Balanced TR in GB	101.93	105.17	106.97	104.35	106.06	122.59	161.33
Index : Cboe UK 100 TR in GB	101.26	103.17	105.14	100.81	129.98	129.94	168.71
Index: Cboe UK Small Companies TR in GB	99.80	105.32	109.37	107.42	117.87	151.38	174.86
Index : FE UK Property Proxy TR in GB	99.85	99.48	99.16	100.22	101.35	101.16	140.21
Index : MSCI World TR in GB	102.75	110.11	112.99	117.47	140.73	183.00	315.26
Index : S&P 500 TR in GB	102.10	110.87	113.65	121.47	149.91	204.10	409.23
Index : Nasdaq 100 GTR in GB	100.69	111.17	116.08	139.28	158.02	275.49	706.87

Market Returns

Market	1 month	2 months	6 months	1 year	3 years	5 years	10 years
Sector : IA Tech & Tech Innovation TR in GB	102.92	114.77	120.35	133.33	131.22	220.82	454.77
Sector : IA Asia Pacific Ex. Japan TR in GB	102.33	105.59	102.97	95.24	90.13	122.20	197.08
Sector : IA China/ Greater China TR in GB	102.48	98.32	88.80	75.18	56.85	84.94	150.21
Sector : IA Global Emerging Markets TR in GB	101.92	105.70	104.75	100.72	90.00	115.19	170.00
Sector: IA UK Gilts TR in GB	101.24	101.60	105.92	102.39	78.69	84.13	108.46
Sector : IA Sterling Corporate Bond TR in GB	100.92	102.75	107.83	107.13	92.34	103.12	126.90
Sector : IA Global Corporate Bond TR in GB	100.19	101.55	104.97	103.60	97.77	107.46	152.61

Data sourced from FE Fundinfo, 8/3/2024


Get in Touch with Us

Please note that information in this mailing should be considered strictly as a general guide and should not be treated as advice.

Thinking ahead to the rest of the year, we'll be reaching out regarding ISAs and tax planning tailored to your unique personal circumstances. Stay tuned for further details, and feel free to reach out to us in the meantime if you have any questions or you'd like to book an appointment.

To book a catch up please use the following link:

[Calendly.com]

John Ditchfield and Matt Coppin

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