

Financial Viewpoint



A year of political change

We look back at the events that impacted global markets in 2017.

2017 Autumn Budget

The Chancellor's second Budget of 2017 was framed by political uncertainty.

Interest Rate Rise

We assess the impact on borrowers and savers.

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A year of political change

2017 was the year of the campaign trail, with several key elections held in countries with great influence on global economics and stock markets. Here, we recap on the political posturing that defined 2017, and what it meant for the global stock markets.



If you're concerned about how global events could impact your investment portfolio, please get in touch.

On 20 January, Donald Trump was inaugurated as the 45th President of the United States. Global stock markets had rallied since the election result on 8 November, with many in corporate America hoping to benefit from promised tax reforms. Not everyone was happy. The day after Trump's inauguration, approximately half a million people protested in the Women's March in Washington DC, making it one of the largest one-day protests in American history.

In Europe, the Dutch were hailed as having "defeated populism" in the 15 March election by denying the Geert Wilders-led Party of Freedom's bid for power.

On 7 May Emmanuel Macron of En Marche! was declared President of France having won the second-round vote against the Marine Le Pen-led National Front by a decisive margin. Again, the election is billed as a win against populism and Europe's far-right. World stock markets are at their highest point for the year so far.

Across the Channel, the UK general election on 8 June restored Theresa May as Prime Minister, but only after the Democratic Unionist Party of Northern Ireland agrees to support a Conservative minority government. As the results came in, the prospect of a hung parliament led to an immediate fall in the value of the pound. May's intention was to seek an overall majority, paving the way for easier Brexit negotiations.

After a relatively quiet end to the summer, aside from ongoing Brexit discussions, the Eurozone's biggest player Germany held its federal election on 24 September. The result saw the Christian Democratic Union win only 33% of the vote – its lowest share of the vote since 1949 – but enough to see Angela Merkel remain as Chancellor. Markets then rallied for the last week of September and continued to climb in October.

Into autumn and it was the turn of the Japanese to go to the polls on 22 October. Given the dramatic fall in popularity that many world leaders had found themselves in over the year, it was a relief for Prime Minister Shinzo Abe to secure a big election win. The father of 'Abenomics' and the 'three arrows' policy of monetary easing, fiscal stimulus and structural reform, Abe's victory was welcomed by a rise in markets.

Elsewhere in Asia, perhaps the most significant global change was happening in China where the hugely powerful Communist party held its five-yearly congress. President Xi Jinping cemented his legacy with his own political philosophy being written into the country's constitution.

Emerging markets will dominate the electoral calendar in 2018, with votes due in the likes of Russia, Mexico, Brazil and Pakistan.

2017 Autumn Budget

Phillip Hammond presented his second Budget of 2017 against a backdrop of Brexit negotiations and political uncertainty, in the UK and across the Eurozone. With so many constraints and the lessons of March firmly in mind, the Chancellor was predictably cautious but, as usual, there were a few surprises.



Mr Hammond could at least take some comfort from the financial figures released before the budget, which showed borrowing fell by £4.1bn in the first seven months of 2017 compared to the same period in 2016.

This might appear to have given the Chancellor "wriggle room" but the Office for Budget Responsibility (OBR) had adjusted its assumptions, notably productivity growth, which reinstated the Treasury's limited room for manoeuvre. The OBR also cut its growth forecast for 2017 from the 2.0% it saw in March to 1.5%, 0.1% lower than the central assumption made by the Bank of England its Quarterly Inflation Report. Economic growth further out is also disappointing: the OBR says that by 2021/22 the UK economy will be **2.1%** smaller than implied by its March 2017 growth forecasts.

While working-age benefits generally remain frozen, the government finances still suffer because of the knock-on effect on index-linked gilts. This was a problem highlighted in the public sector finance figures, which showed the £6bn government interest costs in October were the highest ever recorded for that month. However, the government remains able to borrow 10-year money via the conventional gilts market at a rate of around 1.25% - just as well with nearly £120bn of borrowing to undertake in 2018/19.

So what did emerge from this first Autumn Budget?

Here are some of the key points:

- **Stamp duty** abolished for first-time buyers on homes up to £300,000, and on the first £300,000 of properties up to £500,000.
- Basic rate of income tax rises to **£11,850** from April 2018.
- A **£1,350** rise in the higher rate threshold for 2018/19, to **£46,350**, moving towards the 2020/21 target of **£50,000**. However, this will not apply fully to Scotland.
- An extra £3 billion to prepare for Brexit over the next two years.
- The National Living Wage for those aged 25 and over increases from £7.50 per hour to £7.83 per hour from April 2018. The National Minimum Wage will also increase for 21 to 24 year olds (£7.38ph), 18 to 20 year olds (£5.90ph), 16 and 17 year olds (£4.20ph) and Apprentices (£3.70ph).
- Business rates will switch to being increased by the Consumer Price Index (CPI) two years earlier than planned
- A **£400 increase** in the capital gains tax annual exemption to **£11,700**.
- The first inflation-linked increase in the Pensions Lifetime Allowance, to £1.03m - and no changes to the Pensions Annual Allowance.



If you'd like to find out how the Autumn Budget affects you, please get in touch.

Interest Rate Rise

In 2007 Bulgaria and Romania joined the European Union, Lewis Hamilton got his first drive in Formula 1 partnering with Fernando Alonso at McLaren, the final book in the Harry Potter series was published and England played their first match at the new Wembley Stadium.



Whether you're a saver or a borrower, we'd love to help you make more of your money. Get in touch to find out how.

It was also the year in which the Bank of England last raised interest rates, when they went up by 0.25%.

That all changed on 2 November 2017 when The Bank of England voted to raise UK interest rates for the first time in over a decade, to 0.5%.

So how could an interest rate rise of 0.25% affect you?

In the short term, both borrowers and savers could see a modest effect on finances. Savers are likely to be pleased with the welcome boost even if the increase is small. Borrowers however will be less pleased as they could see their mortgage repayments rise.

Impact on borrowers

Higher interest will mean that those on Standard Variable Rates (SVR) or Trackers Rates will see their mortgage repayments rise. On a mortgage of £125,000 an increase of 0.25% would result in payments increasing by £15 a month (£185 a year).

Those with larger mortgages will in turn see a larger payment increase. Those with a mortgage balance of £250,000 will see their monthly payments increased by £31 (£369 a year). However, the 57% of borrowers on a fixed rate deal will be unaffected during their fixed term.

These figures might not seem much in isolation, but borrowers should also be aware that higher interest rates could impact other borrowing, like credit cards, car credit or unsecured loans.

There's also the prospect that rates could continue to rise over the long-term. If we hit 1%, the monthly repayments on a £125,000 mortgage would go up by £78.48, and £161.69 if the rate doubled to 2%.

If you're concerned about the impact of higher interest rates on your mortgage repayments you may want to consider a fixed-rate deal, especially if you're currently on SVR. Remember, if you're already on a fixed-rate deal you may face higher

repayments when the term ends. Make sure you diarise when that's due to happen and get in touch so that we can discuss whether the best option is to remortgage.

Impact on savers

According to research there's no standard savings account on the market that can outpace inflation, in fact the average easy-access savings account is currently paying 0.35% interest.

If the Bank of England increases the base rate savers may be able to find better returns to keep up with rising inflation. However, as with mortgages, those already on a fixed rate will not see higher rates until the term ends.

Your home may be repossessed if you do not keep up repayments on your mortgage.



Taking a global view

Keeping your investments close to home may have its advantages, but only by looking globally can you be sure you're making the most of diversification.



If you'd like to review your investment portfolio to make sure it's properly diversified and in line with your attitude to risk, please get in touch.



Imagine mealtimes without choice; your culinary options limited only to British food. No stir-fries, no fajitas, no sushi – no burgers even, and fewer curries (our British national dish the tikka masala excluded, of course).

From a similar perspective, those limiting their investments to just the UK – whether that be in stocks, bonds or property – may be missing out on some much-needed spice and flavours that could be achieved from overseas markets.

That's not to say UK investments are completely insular, after all, up to three-quarters of earnings from FTSE 100 companies are estimated to be earned in international markets. However, any bad news from the UK economy could similarly affect companies listed in this most-famous of indexes.

Why is diversification important?

Professional investors have long supported the virtues of diversification, that is spreading investments across a wide variety of markets, countries and asset types. Take, for example, Omnis Investment's range of portfolio funds that individually put money to work across the US, Europe, Asia and in so-called emerging markets such as China, Russia and Brazil.

Each of these markets will have a different risk profile, sometimes moving in different directions as the global economy ebbs and flows on political shifts and other news events.

Seeking the best opportunities

An extra safeguard comes in the form of the Omnis Managed Portfolio Service (OMPS), run by a team which spreads the risks by investing (and selling) each of these funds according to when they think they offer the best opportunities for investors.

Economic growth has been picking up in several regions and this coincides with attractive valuations in export-led markets like Europe, so the team have been able to add extra exposure to this positive outlook and earn extra returns for clients.

Meanwhile, looking further afield to Asian and emerging markets has yielded even better returns, though with potentially bigger risks attached to these territories, the team is wary of investing here for more cautious investors.

UK stocks and bonds will always have a big part of play in UK investors' portfolios, not least because of the potential impact of fluctuations in overseas currencies. However, time and time again investors have been proven right to mix their assets.

The complex nature of investing means professionals will always have a lot on their plates but, as a takeaway, diversification makes for real food for thought.





How to fund a university education

Before the introduction of student loans you may have left university with a bank overdraft. But the sum owed probably paled into insignificance compared to the five-figure debts faced by the coming generation of graduates.



If you're looking for advice on how to invest to support your child's education, please get in touch.

According to the Institute for Fiscal Studies when added to university fees, the average student starting their degree course this year will face a potential £50,800 of debt on graduation, taking university fees and the cost of living into account.

Financial burden

According to the Universities and Colleges Admission Service (UCAS), there was a 5% decline in the number of UK students applying to university for courses starting in 2017. The figures show a 7% drop in applications in Wales, 6% in England and 5% in Northern Ireland. This could be partly attributed to the loss of grant system, as the decline was only 2% in Scotland where fees are paid by the Scottish Government.

Evidence also suggests that fewer students are combining part-time work with their studies. During March to May 2017, of 2.04 million full time students 890,000 took part-time jobs. This is down 41,000 on the same period the previous year.

The combination of increased fees coupled with the reduced number of students taking part-time work, could create a greater financial burden on parents who want to support their children, or result in a bigger loan amount faced by students when they leave university.

Investing for your children's education

If you want to fund your child through their degree course, there are plenty of options to consider. But there are also a number of considerations that it's important to be aware of, including ownership of the investments and the impact of tax.

Two principles which apply to many aspects of financial planning are particularly relevant when planning for your children's financial future:

1. The sooner you start, the better. The longer the timescale, the more scope there is for investments to grow (although there is still no guarantee that they will).
2. Take expert advice before making any decisions. The right investment set up in the wrong way can be worse than the wrong investment set up in the right way. DIY planning is not to be recommended, given the potential pitfalls.

The value of investments and any income from them can go down as well as up and you may not get back the original amount invested.

Investment advice – what a relief!

Every client we meet has a unique and varied range of financial planning needs, so it's important to establish priorities as the first step towards creating a meaningful and relevant financial plan.



To find out more about how we can plan a tax efficient investment strategy please get in touch.

This information is based on our current understanding of the rules for the 2017-18 tax year.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The value of investments and any income from them can go down as well as up and you may not get back the original amount invested.

When it comes to investment planning, one such priority is making sure you're in a position to maximise the tax reliefs and allowances that are available. Here's a useful summary:



Pay no tax on the first **£5,000** of dividend income from your investments (This allowance reduces to £2,000 in the 2018/19 tax year)



Review your potential Inheritance Tax liability with the introduction of the Residence Nil Rate Band



Consider whether you could take advantage of the tax efficiencies available from investing in an Enterprise Investment Scheme or Venture Capital Trust. Please note these are specialist investment options that carry higher risk and not suitable for all investors



Earn up to **£1,000** interest on your personal savings tax free, higher rate taxpayers will be able to earn up to £500



Invest up to £3,600 or 100% of UK relevant earnings, whichever is the greater, up to a maximum of **£40,000** in your pension every tax year and receive tax relief on those contributions



Make the most of your ISA allowance every year and invest up to **£20,000** (in 2017/18)



Make the most of your **£11,300** Capital Gains Tax CGT allowance when selling an asset or investment that has increased in value. Transfer between spouses is currently exempt from CGT. By gifting assets to your spouse or Civil Partner you effectively double your allowance

The value of our advice

Good financial advice and planning helps people to protect and build their assets, make the most of their investments and help to achieve the goals and lifestyle they desire.



For more information about any of our services, please get in touch.

Establishing priorities

Every client we meet has a unique and varied range of financial planning needs, so it's important to establish priorities right from the start if we are to create a meaningful and relevant plan.

As time passes, your financial plan will need to evolve, and regulatory changes can impact the effectiveness of any structures already in place. That's why we recommend a regular review to ensure that your plans remain on track and relevant.

The importance of ongoing advice and service

If you choose to receive ongoing advice and service from us, we'll invite you to regular meetings where we will monitor the progress of your plans and discuss any adjustments required in the light of changing circumstances.

We believe that ongoing service can help you continue to make well-informed choices and give you the best chance of achieving your goals through key life stages.

Five promises we make to our clients



1. We will help you arrange your finances so that they work as effectively as possible towards funding your life goals.



2. We will help you take steps to ensure your income, assets and family are protected from the impact of long-term illness, disablement or death.



3. We will advise you on how your investments can benefit from relevant tax reliefs and allowances. We will also advise you on the most effective way of withdrawing income or capital from your arrangements when the need arises, or how best to pass wealth to your intended beneficiaries.



4. We will help you keep your plans in focus by regularly meeting with you to review and refresh arrangements. This might be a result of changing personal circumstances, legislation, new opportunities and any other factors relevant to your situation.

5. We will be accessible and responsive whenever you wish to contact us with queries or requests.

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