360

from AW Financial Management

March 2021

Welcome to our Spring edition of 360 which is dominated by news of the Chancellor's second Budget Statement following hard on the heels of the PM's provisional route map out of the third and, hopefully, final lockdown. We hope that you are remaining positive and safe.

In this issue

Spring is in the Air

We are acutely aware that many have suffered unimaginably over the last year and our thoughts are especially with those who are reflecting on the loss of loved ones or who are suffering lasting effects of this awful virus. It has also been a time of hope and experiencing the best of humanity—who can forget the contribution of our NHS and other key workers and of individuals like the late Captain Sir Tom Moore.

Whether you agree with or believe what he says, our PM has the capacity for vivid use of the English language as he urges us to stay on board with the government's plan to get us through this crisis. The early positive signs of the vaccine roll-out programme seem to warrant his timely "crocus of hope" analogy—coming as it did shortly after a decidedly wintry week of snow and ice.

As the UK seems to be meeting its vaccination targets and has a provisional road map out of the current restrictions, we think there are reasons to be optimistic about the recovery although are also realistic that there are likely to be more bumps in the road ahead.

Global Markets and Your Portfolio

This table once again presents a snapshot of AWFM's model portfolio performance over the last three and 12 months. As you will be aware, we distinguish between our clients' attitude to risk ('1' being the least and '5' being the most risky) and whether they want their investment to carry an ethical bias or they would rather allow the fund managers free rein in sector and stock selection.

Description	AWFM Risk Model	Ethical 3m	Ethical 1yr	Unrestricted 3m	Unrestricted 1yr
Low Risk	1	-0.66%	2.19%	-1.01%	1.46%
Low to Medium Risk	2	0.28%	6.63%	0.94%	4.51%
Medium Risk	3	0.79%	9.14%	1.56%	8.11%
Medium to High Risk	4	2.54%	13.47%	2.31%	13.49%
High Risk	5	2.56%	22.90%	4.88%	22.82%

In previous bulletins over the last year or so we will have drawn your attention to the relative outperformance of ethical mandates —perhaps in part associated with an increasing demand for good corporate governance. This time, however, there is little to choose between the two versions particularly in the more equity-laden (risk levels 3 to 5) portfolios. This is largely due to a 'bounce' in some of those sectors specifically excluded from ethical funds —commodities and energy, for example— which were particularly beaten up for the majority of the last year but have enjoyed a resurgence as more people are vaccinated and the 'road map' out of lockdown and back to (something like) normality appears to be increasingly realistic.

Furthermore, dare we mention the Brexit transition—the UK finally came out of the transition period with a deal on trade with the EU which buoyed the UK market which offers fewer ethical investment opportunities than, for example, the US. Nevertheless, looking to the long term, we continue to favour the broader range of 'growth' options offered by the US in contrast to UK large cap stocks which are dominated by more cyclical 'value' orientated stocks.

"And this same God who takes care of me will supply all your needs from his glorious riches, which have been given to us in Christ Jesus" - Philippians 4:19

Investment Returns & Outlook

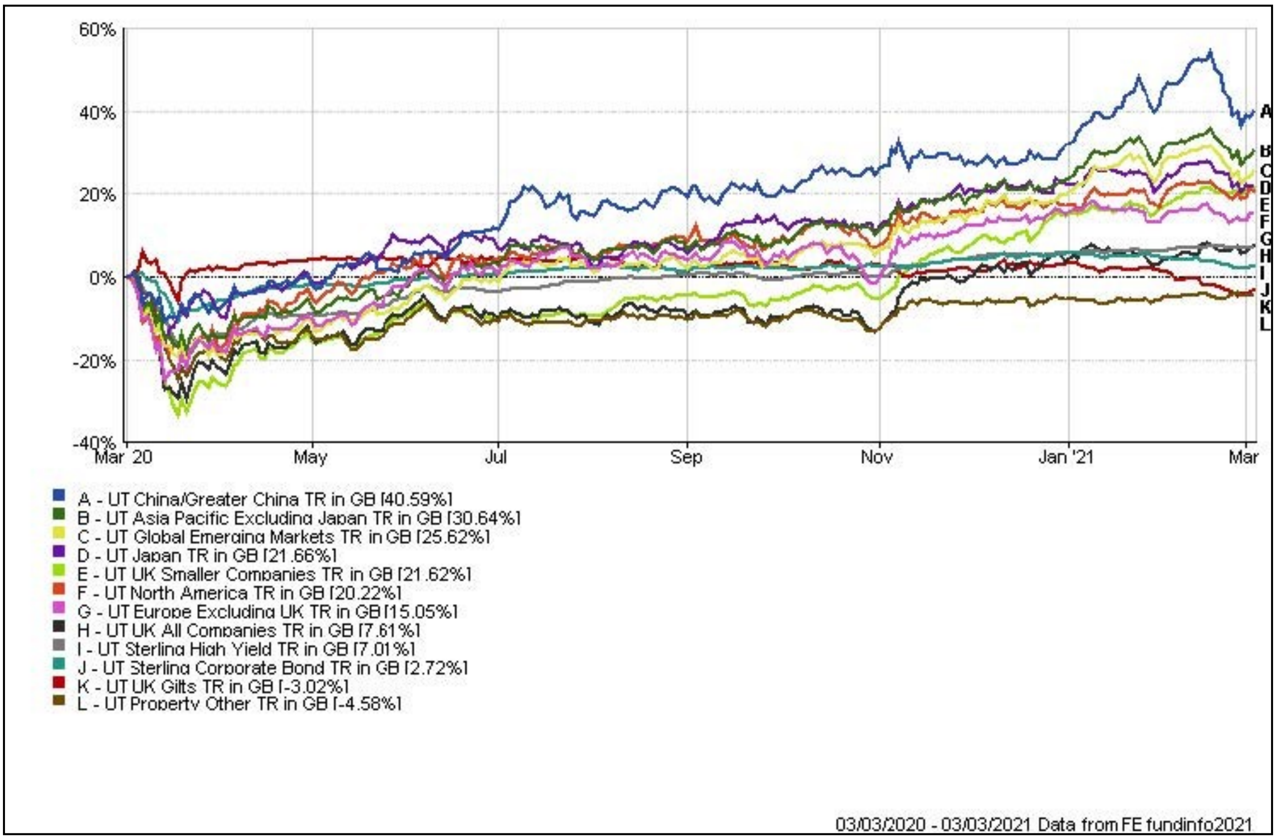
The 12 month period encompassed by the graph below begins as markets are engulfed by a mood of fear and uncertainty.

POS	A POSITIVE outlook	UK equity, US equity, US Smaller Cos equity, Japan equity, Pacific Basin (ex Japan) equity, and Emerging Markets equity.
NEU	A NEUTRAL outlook	UK Smaller Cos equity, US Smaller Cos equity, Europe equity, Property, UK Corporate and Global Bonds.
NEG	A NEGATIVE outlook	UK Government bonds ('gilts').

Analysts were trying to calculate the potential impact of a global pandemic— the like of which had never been witnessed and its implications for corporate earnings and in some cases, survival.

Consequently, equities in all regions endured falls of around 30% before, in mid to late March, it became clear that central banks and governments would do what ever was needed to stave of mass corporate failure and unemployment. They ensured that markets remained liquid, interest rates and bond yields low which, in turn, meant that investors once again regarded equities—or at least those in sectors not regarded as covid casualties—as the "only game in town".

This seems to be borne out by performance of equity sectors of the market whilst bonds have been hit by more recent concerns of inflation leaking into the economic cycle. Optimism around vaccination efficacy has led to expectation that pent up capacity will soon be unleashed as soon as those consumers fortunate enough to have continued earning throughout the pandemic will be free to spend some of their accumulated savings. Similarly, governments including our own are looking to 'rebuild' by way of vast spending for example on infrastructure projects which may also be inflationary.



NS&I Green bond Savings opportunity

Irrespective of poor returns, it's important to maintain a cash reserve and National Savings & Investments (NS&I) is a reassuring option for those concerned about their deposit-taker's creditworthiness (notwithstanding the statutory protection given to all licensed deposit takers). The Budget will have increased the attraction for some as it was announced that NS&I is to offer a Green bond.

The product is scheduled to be launched in the summer and there are no specific details available as yet. It is likely to be popular as it captures the mood around environmental concerns but the interest rate will need to be sufficiently competitive to ensure take-up not so high that it becomes costly for the taxpayer.

Whatever It Takes

On Wednesday, Chancellor Sunak delivered his second Budget Statement to Parliament and understandably, unlike some of those which have come before, there was no room for levity or blatant political points scoring. Like most of us at the time, he had no expectation when he stood up to present his first - a year ago - that those first measures he announced to combat the effects of coronavirus were just the start of what has become a torrent of essential spending.

The aim of averting widescale unemployment, corporate failure and a full blown depression has, so far, been achieved but at a cost which he quantified as £280bn to date – and rising. Last month the Office of National Statistics reported that in 2020 the UK's Gross Domestic Product (the value of everything we produce as a nation) fell by 9.8% - the largest annual decline since 1709 when the 'Great Frost' devastated what was then a predominantly agricultural economy. Although some issues – like the Union with Scotland which had occurred only two years earlier – are again in the news over three centuries on, it was of course long before the evolution of the global economy in which this island nation played an early role. Who then had any idea what was meant by 'quantitative easing' or how governments would use this and other levers to try and protect the economy from crises like this and the financial one which most of us probably *can* remember.

At the time of the Great Frost, direct taxes were confined largely to landowners who were taxed according to the size of their property holdings. These days the principal direct tax is on income and there was an expectation that we would experience adjustments in this area designed to start addressing the national debt which he reminded is at the highest as a proportion of the GDP it's ever been - other than during the two World Wars.

As you will see from the summary which follows, the immediate impact of this Budget has been relatively muted for the individual tax-payer but there may be more to come!

Personal— Income Tax

- Increase in Personal Allowance for 2021/22 to £12,570 (from £12,500 currently).
- Increase in the threshold for Higher Rate Tax in 2021/22 to £50,270 (£50,000).
- Allowances frozen thereafter until 2026/27

The Chancellor was keen to maintain one of his Government's manifesto pledges and was correct to say that no one will face a cut in their net income as a result of this Budget. The "bad news" is that the Personal Allowance and Higher Rate Tax threshold will be frozen thereafter until 2026. The phenomenon which is 'fiscal drag' means that any pay rises after 5th April and during the ensuing five years will of course increase the tax-take. Initial forecasts are that during that time over a million earners will be drawn into the Higher Rate Tax bracket. The Office of Budget Responsibility estimates that an additional £8bn tax revenue will flow each year into the Treasury coffers as a consequence.

Business —Corporation Tax

- Introduction of 'super-deduction' against business profits.
- Increase in Corporation Tax for large companies to 25% in 2023.

For companies, the news had an element of 'give and take'. Starting in 2021/22 incorporated businesses will be able to write off certain capital expenditure at 130% of the investment in the year arising. However, for businesses generating profits in excess of £250,000, the rate of Corporation Tax is to rise to 25% (19%) from 2023. Where profits are less than £50,000, the rate will remain at 19% and —for those falling between the two—matters are complicated by the introduction of a tapering relief.

Property

- Stamp Duty Land Tax threshold to remain at £500,000 until 30th June,
- Then falling to £250,000 until 1st October when it will revert to the pre-pandemic £125,000.

Some of our clients have children or grandchildren eager to get their foot on a seemingly unattainable property ladder so the extension of the increased SDLT threshold and an adjustment to the mortgage product market may offer them hope. With regard to the latter announcement we heard that lenders, from April 2021 will be supported by Government guarantees, in offering mortgages of up to £600,000 to those with deposits of only 5%. Intended to help broaden property ownership, critics have questioned whether the unintended consequence will be to maintain property values at their current levels until these concessions are withdrawn.

...and in Other (Budget) News

- Duties on alcohol *and* fuel (which were set to rise) frozen.
- 5% VAT rate for hospitality to remain until 30th September when it will rise to 12.5% before returning to 20% on 31st March 2022.
- Government approves increase in single contactless payment limit to £100. They hope banks will implement the new limit later this year.
- (Perhaps as a diversion to the recent England men's cricket form in India) Government to help "bring football home with £2.8m backing of joint UK / Ireland bid to host 2030 World Cup bid.

Is ‘No News Good News’?

Still on the Budget, for once we feel it’s worth commenting on what *wasn’t* changed in the Budget as there is the possibility the Chancellor may have saved some of the ‘bad news’ for the UK’s first so-called “tax day” on 23rd March.

Tax day has been billed by the Treasury as an opportunity to publish a number of consultations and calls for evidence on tax policy. Some tax professionals, however, believe it may also include announcements of more substantial tax legislation changes.

You may have heard us prior to successive Budgets warn against the perennial threat to Higher Rate tax relief on pension contributions but this time round there was also very good reason to expect a reform of Capital Gains Tax following the Treasury’s request for a review by the Office of Tax Simplification – completed in unusually short order. It transpired that two allowances which have tended to increase each year - the Lifetime Allowance for pension savings and the Annual Exempt Amount for capital gains - are now both frozen until 2026. The likely appreciation in investment values over the next five years mean that, again, more will be drawn into suffering a Lifetime Allowance charge on pension benefits crystallised in excess of the Lifetime Allowance (stuck at £1,073,100) or tax on chargeable capital gains exceeding the Annual Exempt Amount (£12,300).

However, the impact of what, over time, will become reductions in real terms of these allowances can be managed to an extent with careful financial planning whereas pre-Budget talk was of a significant immediate reduction in the current Annual Exempt Amount for capital gains and an increase in the tax rates applied to chargeable capital gains. Furthermore, the tax-related benefit of dying with capital gains was also expected to be withdrawn.

Whilst the measures announced in the Budget were relatively benign, we wait to hear what “tax day” has in store for investors (and financial planners!)

Eastwards and Upwards!

Many of our clients will be aware that, following a period of sustained growth in the business, AWFM moved in 2017 to our current premises in Sidcup. Since then we have been blessed with a steady stream of new clients and recruits (more on that later) and, although River House has served us well over that time, the Partners came to the conclusion as we approached the end of our lease that we needed a larger —preferably self-contained and self-owned — office.

After much research and negotiation we are pleased to report that we identified *The Old Exchange* in Farningham which was, (finally!) acquired last month. As with most property moves, there is much to be done to make it modern and fit for purpose as we prepare for the time when we will eventually once again see our clients face-to-face.

As we write, we are still at the planning stage to reconfigure the layout and so it is unlikely we will be ready to move in until early 2022. We’ll aim to keep you updated of our progress with the property and look forward to creating a really welcoming and suitable office for both clients and the AWFM team alike.

There is plenty of parking!

AWFM Staff News

You may recall that in the summer we begun our search for a new administrator to join the team. Whilst this was, like so many other plans, hampered by the fluidity of covid restrictions, we are pleased now to be able to announce our newest recruit who starts this week with AWFM.

Zack, another Sidcup resident having experienced other sectors of working life since finishing his A Levels 18 months ago, is keen to build on his personal interest in investment and financial planning. Whilst he’s looking to build a career in wealth management, for relaxation he is a keen gamer and sportsman although currently having to take a breather from running up and down the wing for his Church’s football team. At least he’s able to maintain support for Arsenal — which wasn’t held against him in the selection process!

We are pleased to welcome Zack and look forward to him growing with us in his new career.

If you have any questions about this newsletter or your existing investments, please contact us to discuss your situation further.

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