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Steady growth in an uncertain world

Reassuringly for investors, the latest batch of projections from economic soothsayers continues to predict a period of steady, if unspectacular, global growth. The forecasts also highlight a number of economic concerns including 'sticky' inflation, large budget deficits and geopolitical uncertainties, which could inevitably create some investment challenges.

Growth rates beat expectations
Economic growth figures released over the summer generally proved stronger than analysts had expected, particularly in relation to Europe and the US (in Q2). And while economic momentum is expected to soften across the second half of this year, forecasters are still predicting steady rates of growth. The latest figures from the International Monetary Fund (IMF), for instance, forecast global growth of 3.2% for the whole of 2024 with the rate rising slightly to 3.3% next year.

Inflation persistency
The IMF's musings were contained in a report entitled *'The Global Economy in a Sticky Spot,'* which highlighted two prominent near-term risks currently undermining growth prospects. Firstly, the IMF warned that *'services inflation is holding up progress on disinflation'* which could result in interest rates remaining *'higher for even longer.'* Secondly, a deterioration in public finances has left many countries in a position of fiscal vulnerability and this is *'magnifying economic policy uncertainty.'*

Geopolitical uncertainties
In what was dubbed 'the year of the election', geopolitical uncertainties unsurprisingly continue to be a key concern as well. Indeed, their impact on global growth prospects can only be expected to rise in the near-term as the US presidential election looms ever closer. Continuing geopolitical conflicts and the rise in geoeconomic competition is also creating ongoing challenges for the global economy.

Elements at play
Economic resilience has flowed through to central bank monetary policy as global institutions have largely adopted a cautious approach. Slower but still positive growth, lower inflation and interest rate reductions are a positive combination for investors.

Whatever uncertainties do lie ahead, one investment fundamental remains constant: long-term investors are best served by holding a well-diversified, multi-asset portfolio based on sound financial planning principles and thorough research. We'll help ensure your portfolio remains well-balanced and with the right mix of assets; we're always focused on finding investment opportunities.

Uptick in IHT receipts – what lies ahead?

Data[1] has shown that Inheritance Tax (IHT) receipts have continued their ascent, with £2.8bn received in the April to July period this year. This figure is a substantial £0.2bn increase on the same period in the previous tax year (2023/24).

Frozen thresholds continue to take their toll as IHT, once a tax reserved purely for the super wealthy, impacts more of us. Property values have generally risen over the last decade or so, driving record IHT levels.

Whether the government chooses to focus on IHT in the upcoming Autumn Budget remains to be seen. Calls for simplification of the tax have been rife for years. With such high receipts the Chancellor may choose to make the tax work even harder for the Treasury. Whatever the future holds for IHT we will keep you informed of developments and work with you and your family to pass wealth down the generations as efficiently as possible, developing a strategy to help secure your beneficiaries' financial future.

[1]HMRC, 2024

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Equity fund inflows on the up

Statistics[2] show that, during the first half of 2024, net inflows to equity funds were over £11.3bn, the best six-month recording for equity funds according to global fund network Calastone's ten-year record. Of the most positive inflows, North America and global funds recorded £7.8bn and £7.2bn respectively, with emerging market and European funds also recording inflows, offset by outflows for income funds and UK-focused funds. Head of Global Markets at Calastone, Edward Glyn, commented, *"Hopes for cheaper money after the painful rate squeeze of the last two-and-a-half years are the clear driver of record flows into equity funds so far this year."*

Dividends – most sectors deliver growth

During Q2, UK dividends reached new highs, primarily supported by one-off special dividends and banking sector payouts[3]. Totalling £36.7bn in the quarter, dividends increased by 11.2% on a headline basis. With 16 out of 21 sectors experiencing higher payouts, growth was *'broad based,'* and the median dividend increase was 5.4% year-on-year.

Numbers paying Dividend Tax doubles

The number of people paying Dividend Tax is expected to double from 1.8 million in 2021/22 to nearly 3.6 million in the current 2024/25 tax year, boosting Treasury coffers by an estimated £18bn[4]. The data indicates one fifth of all higher rate taxpayers will pay the tax, the average bill being £5,379, increasing to £32,578 for additional rate taxpayers.

[2]Calastone, 2024, [3]Computershare Dividend Monitor, 2024, [4]FOI AJ Bell, 2024

Navigating a multi-retirement reality

Over the years, a number of notable trends, such as increased longevity and individuals taking on greater responsibility for their pension provision, have clearly altered the retirement landscape significantly. Now, new trends look set to further change the face of retirement, adding complexity to the retirement planning process and making early planning ever more essential.

Multi-retirement households

One of the new trends relates to families with more than one generation retired at the same time. A key impact of this trend will be the extra strain placed on families' finances leaving many households needing to reassess retirement plans to navigate a multi-retirement reality.

Age gap relationships

Further complications also arise when there is an age gap in a relationship, as this means each partner will generally be looking at a different retirement timescale. Such a situation also heightens the need to plan at a family level, as it will typically mean other surrounding generations are at different life stages too, potentially adding greater complexity to family structures.

Open and honest

Discussing and planning for retirement has always clearly been vital but growth in multi-retirement families and age gap relationships makes this even more important. Open and honest conversations relating to retirement expectations need to take place between partners and with family, and key decisions over expected retirement timings and which family members will require financial support need to be discussed and agreed.

The future can be bright

While these trends will certainly change the face of retirement for many families, one thing that won't change is our support. If you have any concerns about retirement, get in touch and we'll help you create a plan to ensure a bright financial future for both you and your family.

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Avoiding the unretirement 'tax trap'

Research[5] suggests a significant minority of over-55s either have or are planning to unretire. Worryingly, though, a majority in this group have not checked the tax implications associated with such a decision, leaving many potentially at risk of falling foul of the unretirement 'tax trap.'

The great unretirement continues

According to the research, more than a quarter of people aged 55 and over plan to continue with some form of paid work after retiring, with respondents citing a variety of reasons for doing so. For some, a desire to generate additional income to pay for luxuries was a key driving force, while others felt it would keep their brains active or give them a better sense of purpose.

Unknown tax implications

However, the survey also revealed that almost two thirds of those that have or are planning to unretire had not checked the potential tax implications of doing so; additionally, six out of ten over 55s who are either working or plan to work in retirement had no plans to seek financial advice.

Minimising the tax burden

Clearly, anyone undertaking paid work in retirement needs to fully understand the tax implications, which include a possible increase in tax liability if extra earnings take someone's income above the personal tax threshold or pushes them into a higher tax bracket. They also need to consider how any potential liabilities could be mitigated, for example by maximising the use of tax reliefs and allowances.

On an even keel

If you are currently working in retirement or plan to do so, we can provide you with personalised advice tailored to your unique set of circumstances that will help structure your finances in the most tax-efficient manner and ensure you avoid falling into the unretirement 'tax trap.'

[5]Wesleyan, 2024

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Why should you care about correlation

If you want your investment portfolio to strike a good balance between risk and return, it's worth knowing how correlation can impact your investments.

If two different investments are perfectly correlated, their value will rise and fall by the same amount, at the same time. Investing in highly correlated assets can increase your losses, because when one investment falls in value (except for a reason peculiar to it), the others may well do likewise.

Avoiding correlation is crucial for building a well-diversified portfolio. If all your investments move in the same direction, your portfolio is more vulnerable. Owning a variety of investments that move differently can help limit risk and protect your overall portfolio's value.

Is your portfolio more correlated than you think?

You might be surprised at how closely correlated some of your investments are. This is because many large funds hold similar holdings, which can lead to increased correlation and reduced diversification benefits. Even if you own a globally diversified fund, you might not be as diversified as you think, as allocation to holdings can be closely aligned.

This has become a concern recently, as the performance of the 'Magnificent Seven' technology stocks (Apple, Microsoft, Amazon, Alphabet (Google), Meta (Facebook), Nvidia and Tesla, has seen them dominate global portfolios. Should these companies all start to underperform, it could have a substantial impact on overall investment returns.

So, for a truly diversified portfolio, owning a range of investments with low or no correlation, where one investment isn't virtually certain to move in the same direction as another, is ideal.

How to align wealth and purpose

Purpose has lately become a buzzword for investors and companies. Whether *'mission-oriented'* investing excites you or makes you want to run for the hills, aligning your wealth with your values and interests can bring rich rewards.

Give and grow
Historically, wealthy people wanting to make a difference have done so through philanthropy. In response to major challenges from climate change to poverty, some billionaires have devoted large chunks of their wealth to finding and funding worthy causes.

Many wealthy families are motivated simply by a desire to make a positive difference in the world. However, doing good does not always mean compromising returns; with the rise of impact investing, more people are combining the pursuit of financial returns with societal benefit.

Investing for world peace
The rise to prominence of environmental, social and governance (ESG) investing brought opportunities to make money while having a positive impact.

'Investing for Global Impact,' a report released by Barclays, found that 68% of ultra-high-net-worth private investors with an average $730m in assets felt that philanthropy and impact investing should be used in tandem to generate impact.

Indeed, some 58% of respondents said they are already seeking to coordinate their portfolios into tackling common aims and themes across both[6].

What's your impact?
The modern purpose-driven investor has abundant ways to make a difference.

Wealthy investors cite a responsibility to make the world better as one reason for choosing impactful investing.

With a clear-minded strategy that considers wealth holistically, investors can look to pursue opportunities and build a family legacy. A deeply personal process, the challenge is to balance a wide breadth of factors from what the world needs, to your own circumstances and motivations. For you, your family and society, it can prove enormously enriching.

[6]Barclays, 2023

HNWIs on the rise – and their needs are changing

A new report[7] suggests the wealth of 'high-net-worth-individuals' (HNWIs) – grew by 4.7% in 2023, with the HNWI population increasing by 5.1% to 22.8 million globally.

What's behind the increase?
Global economic uncertainty, higher interest rates and rising political tensions led to significant declines in HNWI wealth (3.6%) and population (3.3%) in 2022. However, the economic picture improved in 2023, as global equity markets recovered and investors focused on the prospect of interest rate cuts.

CapGemini confirmed, *'Despite ongoing interest rate uncertainty and rising bond yields, equities surged along with the tech market, fuelled by enthusiasm for generative artificial intelligence (AI) and its potential impact on the economy.'* North America led the recovery, with significant HNWI wealth and population increases. Asia-Pacific also saw growth, while Europe experienced more modest gains.

What are their priorities?
As the HNWI population becomes younger, investment priorities have also shifted from defensive investing towards generating longer-term wealth. Value-added services, such as tax planning and intergenerational transfer are increasingly sought after.

What influences their decisions?
Over 64% of HNWIs polled said emotional or cogitative biases influenced their decision making. This includes seeking information from sources that aligned with their views, seizing opportunities without due consideration, holding onto underperforming investments for too long, and playing safe, missing out on potential opportunities.

These biases are particularly impactful during personal life events such as marriage, divorce or retirement, as well as times of broader economic turbulence, such as volatile market conditions and geopolitical uncertainty.

The findings confirm HNWIs need access to good quality, highly personalised financial advice now more than ever. Not only can we help to create bespoke strategies to suit individual and family needs, we can also overcome biases in favour of longer-term financial plans.

[7]CapGemini, 2024

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