AM&A | Investment & Pension Planning Limited

We have pleasure in issuing our newsletter for August 2018 that includes a detailed monthly commentary covering world equity markets in July together with other topical articles that we hope you find interesting.

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The pound fell below US$1.30 for the first time since September last year during July as disappointing retail sales data triggered concerns that inflationary pressures are starting to falter.

As always, please get in touch with us if you need help or advice on any of the topics covered in our newsletter.

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AM&A Model Portfolios, Indices & Benchmarks, Recommended Investment Funds
Performance Data to 31 July 2018

The following tables show examples of percentage returns of AM&A risk rated model portfolios and market benchmarks and indices using prices at the end of the last calendar month over 1 month, 3 months, , 6 months, year to date and over 1, 3, 5 and 10 years. Please note that these examples are for illustrative purposes only and exclude the effect of fees on the actual returns. Please note that pension fund and life fund performance can differ from unit trust/OEIC performance due to the underlying taxation treatment that past performance is not a reliable indicator of future returns and the value of investments can go down as well as up. We endeavour to ensure that the data below is accurate to the best of our knowledge. However, we rely on information that is provided to us by third parties and this may therefore not always be correct and/or up to date. As such, we cannot accept liability for any reliance placed on this third party-produced information.

	1m	3m	6m	ytd	1yr	3yr	5yr	10yr
AM&A Model Portfolios								
AM&A Defensive Portfolios								
Cash Alternative Portfolio	0.8	0.6	0.1	0.2	1.4	7.8	18.4	
Defensive Portfolio	1.2	1.8	1.0	1.2	3.3	15.2	28.1	
Benchmark IMA Mixed 0-35% Index (Defensive)	0.6	1.1	0.3	0.0	1.5	12.6	20.3	
AM&A Cautious Portfolio								
Moderately Cautious Portfolio	1.5	3.1	2.3	2.5	5.8	25.0	39.9	107.7
Benchmark IMA Mixed 20-60% Index (Cautious)	1.1	1.7	0.7	0.7	3.0	17.4	28.6	62.5
AM&A Balanced Portfolio								
Balanced Portfolio	1.6	4.1	3.3	3.4	7.5	32.1	49.5	136.8
Benchmark IMA Mixed 40-85% Index (Balanced)	1.5	3.2	2.0	2.1	5.6	25.1	39.9	84.2
AM&A Moderately Adventurous Portfolio								
Moderately Adventurous Portfolio	1.8	5.0	4.2	4.2	9.0	37.7	58.0	160.4
Benchmark IMA Flexible Managed Index	1.6	3.0	1.2	1.9	5.6	26.9	41.3	79.0
AM&A Adventurous Portfolio								
Adventurous Portfolio	2.0	5.7	4.6	4.6	11.0	44.3	64.3	174.0
Benchmark AFI Aggressive	1.4	3.4	2.6	2.7	7.8	35.9	54.9	111.6
AM&A Aggressive Portfolio								
Aggressive Portfolio	2.4	7.4	6.0	7.0	12.7	52.7	59.2	162.0
Benchmark IMA Global	2.4	6.2	4.2	4.9	10.1	45.8	66.5	128.7

Source Financial Express 1 August 2018

Market Overview July 2018

Investors became increasingly preoccupied by the possibility of a "no-deal" Brexit during July as the UK's Parliament broke up for the summer recess. Although Chief EU Brexit negotiator Michel Barnier described the UK's Brexit White Paper as a "real step forward", he refused to accede to the proposal that the UK will collect customs duties on the EU's behalf. Elsewhere, Bank of England Governor Mark Carney revealed that his confidence in the outlook for the UK economy is on the rise, boosted by some encouraging economic data. The FTSE 100 Index posted an increase of 1.5% over July as a whole.

The US economy posted annualised growth of 4.1% during the second quarter, representing its most rapid rate of expansion since the third quarter of 2014. Growth was stoked by strong growth in consumer spending and by stronger export activity ahead of the introduction of controversial new trade tariffs. The Dow Jones Industrial Average Index rose by 4.7% over the month. In his testimony to the US Senate, Federal Reserve Chair Jay Powell remained broadly positive towards the economic outlook, citing a robust labour market, higher post-tax incomes and general optimism amongst consumers. Nevertheless, he expressed some misgivings about the potential impact of the ongoing trade wars.

The US began to impose a 25% tariff on US$34 billion of Chinese products during July and went on to threaten additional levies on a further US$200 billion of goods. China's Commerce Ministry responded by warning: "The behaviour of the US is harming China, harming the world and harming itself". The finance ministers of the G20 warned that escalating trade tensions are likely to hurt the global economy, while the International Monetary Fund (IMF) described them as the "greatest near-term threat" to the global economy.

As expected, the European Central Bank (ECB) left its key interest rate unchanged during July. ECB President Mario Draghi remained positive towards the region's growth prospects, which he described as "solid and broad-based", despite intensifying trade tensions. The Dax Index rose by 4.1% in July, while the CAC 40 Index climbed by 3.5%.

The Bank of Japan's quarterly Tankan survey of business sentiment found that confidence amongst large Japanese manufacturers declined more rapidly than expected over the second quarter, undermined by concerns over the impact of trade wars. The Nikkei 225 Index rose by 1.1% during July.

Sterling wobbles in July

Gilt yields rose and gilt prices fell during July amid expectations that the Bank of England (BoE) would increase its key interest rate at the Monetary Policy Committee's (MPC's) August meeting. In the end, the MPC raised base rate by 25 basis points to 0.75% early in August. Over July as a whole, the yield on the benchmark government bond climbed from 1.31% to 1.39%, while the yield on the short-dated gilt – which matures in 2021 – rose from 0.71% to 0.83%.

The outlook for the UK economy has improved, according to BoE Governor Mark Carney, who reported growth in demand that is outstripping supply, and intensifying pressures on domestic costs. The BoE appears to believe that soft economic growth of only 0.2% during the first quarter was largely attributable to unusually wintry conditions, and household spending and sentiment have "bounced back strongly". Nevertheless, Mr Carney issued a cautionary note about the ongoing escalation of trade tensions, citing rising levels of "protectionist rhetoric" that are contributing to a "hostile and uncertain trading environment".

The pound fell below US$1.30 for the first time since September last year during July as disappointing retail sales data triggered concerns that inflationary pressures are starting to falter. The annualised rate of inflation – as measured by the Consumer Prices Index (CPI) – remained at 2.4% during June, dampened by lower prices for clothing, footwear, toys and games; in comparison, average earnings (excluding bonuses) rose by 2.7% in the three months to May.

Government borrowing over the three months to June reached its lowest level since 2007, according to the Office for National Statistics (ONS). Total borrowing so far in the current financial year came to £16.8 billion, which is £5.4 billion lower than in the same period in 2017.

Activity in the UK services sector grew at its most rapid rate since October 2017 during June, according to IHS Markit/CIPS. Activity was boosted by a sharp rise in business costs underpinned by higher wage growth and an increase in energy prices, and recent hot weather is also believed to have played a part. Growth in new business activity was particularly strong, reaching its highest level for over a year. Brexit-related uncertainties, however, appears to be holding back business investment to some extent, particularly with regard to large corporates who are delaying spending on big-ticket items.

Is a flat rate scheme coming to pension tax relief?
The prospect of a flat rate of tax relief on pension contributions has resurfaced in the national press.

The cost of pension relief has been chipped back in recent years, mainly by reducing the annual allowance. However, a report in *The Times* in early July suggested the Treasury is looking at flat rate tax relief, which would give the same rate of tax relief on contributions, regardless of personal income tax rates. *The Times* reported a flat rate of 25% is being considered, meaning a gross pension contribution of £100 would require a net outlay of £75 instead if the current £80.

The 25% rate would be an effective tax cut for the majority of pension contributors, who pay basic rate tax, but would potentially save the Exchequer about £4 billion a year. It is estimated that a flat rate of 28% would cost the Treasury the same as today's mix of 20%, 40% and 45% reliefs.

It is hardly surprising that the Treasury is re-examining pension tax relief, given it is looking for an extra £20.5 billion for NHS funding. Tax relief on pension contributions cost the Exchequer £38.6 billion in 2016/17 according to HMRC's latest estimate, as well as over £16.2 billion of national insurance contribution (NIC) relief on employer contributions.

It remains to be seen if such a change will be announced in the Budget. Currently, the politics of such a move seem between difficult and impossible, and the Chancellor will remember the backlash he faced when he attempted to raise NICs. A proposal to end higher rate tax relief could meet with similar resistance, especially as it would likely coincide with the next rise in automatic enrolment pension contributions. However, a recent Treasury Select Committee report recommended the Government give "serious consideration" to the introduction of flat rate relief.

In the longer term, a switch away from full tax relief is beginning to look inevitable. George Osborne, Mr Hammond's predecessor, almost made the change in 2016. Mr Hammond, or his successor, may finally do so, if only for the extra revenue. In the meantime, if you are a higher or additional rate taxpayer, maximising pension contributions is a strategy to consider.

Draft legislation released in July contains more bad news for those renting out residential property.

The Finance Bill 2018/19 draft legislation published just before the summer holidays has confirmed the following measures:

- From 6 April 2019, the rules for rent-a-room relief (which exempts up to £7,500 a year of income from tax) will be revised. A new 'shared occupancy test' means the relief will no longer apply if the entire property is rented out for the tenancy period. This will mean an end to going on holiday and letting out your home tax-free during sporting events, such as Wimbledon.

- From 1 March 2019, the window for filing and paying stamp duty in England will shrink to just 14 days from the date of sale. Past experience suggests Scotland and Wales will follow suit.

- From 6 April 2020, for residential property sales giving rise to taxable gains, a tax return must be made and the capital gains tax (CGT) paid within 30 days of the sale. Any adjustments would then need to be made via a self-assessment return.

Over the past few years, the Treasury has turned its attention to the private rented sector. As such, landlords must already comply with several new rules, including: the wear-and-tear allowance for furnished lettings being replaced with a tighter expenditure-based regime; the phased replacement of full income tax relief on finance interest costs with a basic rate tax credit; a 3% stamp duty surcharge for second residential properties; and an 8% capital gains tax surcharge on residential property.

The number of new buy-to-let sales is dropping, and some landlords are looking to sell following the changes. A consultation paper published by the government in July proposes minimum tenancy agreement terms of three years which may stimulate fresh landlord sales before the new CGT rule bites.

If you are thinking of moving in or out of this investment area, do talk to us about your options before taking any action.

Is the LISA's short life about to end?
The Lifetime ISA (LISA) may not survive after low uptake by providers and fresh criticisms from parliament.

The LISA has been reviewed by the Treasury Select Committee, which was critical of, "its complexity, its perverse incentives, its lack of complementarity with the pension saving landscape and its apparent lack of popularity with the industry and pension savers". The Committee concluded by recommending "The Government should abolish it."

The LISA was announced by the previous Chancellor, George Osborne, in his final Budget in Spring 2016. It was intended to appeal to savers under 40 by combining a first-time buyer's deposit saving scheme and a pension arrangement, stretching the ISA idea into a very new shape.

Despite reservations from the Financial Conduct Authority about the regulatory implications, and reluctance from the savings industry, Philip Hammond launched the LISA in April 2017. Progress has been limited since then as there is still only one provider of cash LISAs. There is a wider choice of stocks and shares LISAs, but these are generally not suitable as deposit saving arrangements.

Although the Committee's criticisms are hard to dispute, there are some situations where the LISA can be the best option. If you, your children or your grandchildren are aged between 18 and 39, make sure you check with us whether you should consider investing in a LISA before the Treasury Select Committee gets its way.

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