We have pleasure in issuing our newsletter for February 2019 that includes a detailed monthly commentary covering world equity markets in January together with other topical articles on tax year end planning that we hope you find informative.

Having dominated financial markets in 2018, political issues intensified into 2019 in the UK and the US. Following its worst December since 1931, in the US, the S&P 500 Index experienced its best January since 1987 and our model portfolios also greatly benefitted from the strong market rally which continued into the first week of February.

If you do have any concerns about the recent market volatility or any other articles in this month's newsletter, please do not hesitate to contact us to discuss your situation in greater detail.

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AM&A Model Portfolios
Performance Data to 31 January 2019

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, 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	1yr	3yr	5yr	10yrs
AM&A Model Portfolios							
AM&A Defensive Portfolios							
Cash Alternative Portfolio	2.5	-1.3	-1.7	-1.5	5.7	14.7	
Defensive Portfolio	2.9	-1.7	-2.8	-1.8	12.4	22.5	80.7
Benchmark IMA Mixed 0-35% Index (Defensive)	1.8	0.4	-1.7	-1.4	12.9	17.9	63.3
AM&A Cautious Portfolio							
Moderately Cautious Portfolio	3.4	-0.5	-5.1	-2.7	19.7	30.5	113.9
Benchmark IMA Mixed 20-60% Index (Cautious)	2.7	0.1	-3.3	-2.5	18.0	23.4	82.3
AM&A Balanced Portfolio							
Balanced Portfolio	4.1	-2.7	-5.6	-2.3	26.6	41.5	155.4
Benchmark IMA Mixed 40-85% Index (Balanced)	3.3	-0.3	-5.0	-3.1	25.1	32.0	114.7
AM&A Moderately Adventurous Portfolio							
Moderately Adventurous Portfolio	4.6	-3.1	-6.5	-2.4	31.1	48.3	186.5
Benchmark IMA Flexible Managed Index	3.4	-0.1	-5.3	-4.1	27.6	33.7	120.3
AM&A Adventurous Portfolio							
Adventurous Portfolio	4.8	-3.3	-7.4	-3.1	36.5	52.9	207.9
Benchmark AFI Aggressive	4.1	-0.5	-6.9	-4.4	33.4	43.3	154.0
AM&A Aggressive Portfolio							
Aggressive Portfolio	4.7	-1.9	-5.6	0.6	49.4	59.0	206.4
Benchmark IMA Global	4.6	-0.9	-6.1	-2.0	46.6	57.2	174.6

Source: Financial Express, 1 February 2019

Market Overview - January 2019

Having dominated financial markets in 2018, political issues intensified into 2019 in the UK and the US. The UK inched closer towards the Brexit deadline without any sign of a resolution. After losing the "meaningful vote" on her Brexit deal by an unprecedented margin, Prime Minister Theresa May went on to survive a vote of no-confidence proposed by Labour leader Jeremy Corbyn. A range of non-binding amendments were tabled, and the seemingly intractable issue of the Irish backstop appeared to be the principal sticking-point for MPs. In the end, Theresa May confirmed that she would approach Brussels to see if negotiations could be reopened, before she heads back to Parliament for another vote in February.

UK

January ended without any resolution to the question of Brexit. With only two months left before the deadline of 29 March, investors faced up to the possibility of no deal. Despite this uncertainty, the FTSE 100 Index rose by 3.6% during January, while the FTSE 250 Index climbed by 6.9%.

Prime Minister Theresa May finally held the "meaningful vote" on the Brexit deal agreed with the EU; however, the deal was resoundingly rejected by the House of Commons as MPs voted it down by 432 to 202 – an unprecedented defeat. The Government subsequently survived its first no-confidence vote since 1979. Following votes on a range of amendments, including the thorny issue of the Irish backstop, Mrs May confirmed that she would attempt to reopen negotiations with Brussels. The Confederation of British Industry (CBI) described the move as "a real throw of the dice" and, far from prompting UK businesses to halt their no-deal planning, it might even have accelerated it. Meanwhile, the EU's chief Brexit negotiator Michel Barnier stated: "The backstop is part and parcel of the Withdrawal Agreement and it will not be renegotiated".

Alongside the chief executives of several leading supermarkets and fast-food outlets, the British Retail Consortium (BRC) sent a letter to MPs outlining the risks posed by a no-deal Brexit. In particular, the letter warned that almost one-third of food eaten in the UK comes from the EU; moreover, as only 10% of the UK's food imports are currently subject to tariffs, a reversion to World Trade Organisation (WTO) rules would drive up import costs and therefore prices.

UK retailers suffered their worst December for ten years, according to the BRC, which reported zero annualised growth in retail sales. Motoring and cycling retailer Halfords issued a profit warning in January, while fashion retailer Quiz issued its second profit warning in three months. Sales dropped at M&S over Christmas; the company blamed deteriorating consumer confidence, mild weather, Black Friday, and widespread discounting by competitors for the decline. Supermarket retailer Sainsbury's also reported a decline in sales over the Christmas period; however, Tesco bucked the trend, revealing "strong" Christmas trading, while online clothing retailer Boohoo upgraded its revenue growth. Although Next enjoyed robust online sales during the crucial Christmas period, sales fell at its stores, and the company downgraded its full-year profit forecast.

North America

Following its worst December since 1931, the S&P 500 Index experienced its best January since 1987. Investors appeared to shrug off the implications of a protracted partial shutdown of the federal government, concentrating instead on encouraging corporate earnings releases and signs that the Federal Reserve (Fed) was moderating its hawkish monetary stance. Over January as a whole, the S&P 500 Index rose by 7.9% and the Dow Jones Industrial Average Index climbed by 7.2%, while the Nasdaq Index rose by 9.7%.

To date, fourth-quarter corporate earnings generally came in slightly better than expected, although estimates had, in many cases, already been lowered. Industrials was the best-performing S&P industry sector over January, followed by energy, and communication services. Utilities was the worst-performing sector, but still ended the month in positive territory. During the month, department store operator Macy's issued a profit warning caused by weaker sales over the holiday period, while Apple cut its quarterly sales forecast for the first time in 15 years, warning that revenues were likely to be adversely affected by slower demand for its iPhones in Greater China, exacerbated by the ongoing trade conflict between the US and China.

Trade discussions between the two countries continued slowly during January. In an interview with the New York Times, President Trump confirmed that the US was "getting closer" and negotiations were "going very well". The CBO warned that new tariffs could reduce economic growth by 0.1% by 2022 as higher costs dampen consumption and private investment.

President Donald Trump finally capitulated and brought the longest-ever US government shutdown to a temporary end. The deal, however, only finances the government until 15 February, and he refused to give up on his pledge to build a wall. The Congressional Budget Office (CBO) calculated that the 35-day shutdown had cost the US economy around US$3 billion and would reduce first-quarter economic growth by 0.2%.

The Federal Reserve (Fed) appeared to moderate its hawkish stance on monetary policy. Minutes from the December meeting of the Federal Open Market Committee (FOMC) showed that policymakers were shifting to a more "patient" approach, citing muted inflationary pressures against a backdrop of volatile financial markets and mounting concerns over the outlook for global growth. Based on current information, policymakers believe that "a relatively limited amount of additional tightening" is going to be necessary.

Europe

Although European stock markets generally rallied in January after December's sharp falls, investor sentiment was blunted by further signs of economic slowdown. European Central Bank (ECB) President Mario Draghi warned that economic data had proved weaker than expected, and headwinds to growth have intensified.

In particular, he cited the impact of China's economic slowdown, the diminishing influence of President Trump's tax breaks in the US, and the problems faced by Germany's auto industry.

Mr Draghi also highlighted the effects of ongoing Brexit-related uncertainty: while he does not appear to regard Brexit as a major long-term disruptor to the eurozone as a whole, he acknowledged that some countries are more exposed than others to the impact of Brexit.

Looking ahead, the ECB appears even more unlikely to consider tightening interest rates until the end of 2019 at the earliest.

The International Monetary Fund (IMF) expects economic growth in the eurozone to moderate from 1.8% last year to 1.6% this year, edging up to 1.7% in 2020. The IMF trimmed its forecast for Germany, citing weaker private consumption, soft industrial production and "subdued" foreign demand. Although Germany notched up a ninth consecutive year of positive economic expansion in 2018, the pace of growth slowed down to its slowest rate since 2013. Over 2018 as a whole, Germany's economy grew by 1.5%, compared with growth in 2017 of 2.2%.

Confidence amongst German businesses worsened in January, according to the Ifo Institute. Business sentiment dropped to its lowest level since February 2016, and business expectations turned negative for the first time since December 2012. The Dax Index rose by 5.8% over January, while France's benchmark CAC 40 Index climbed by 5.5%.

Italy's economy slipped into recession during the fourth quarter of 2018. Having shrunk by 0.1% over the third quarter, Italy contracted by 0.2% during the final three months of the year. The eurozone's economy expanded at a quarterly rate of 0.2% during the fourth quarter, having grown by 0.2% over the previous quarter. The FTSE MIB Index rose by 7.7% during January.

Economic sentiment deteriorated across the euro area during January, particularly within the industrial, services and retailing sectors. The annualised rate of inflation in the eurozone fell from 1.9% in November to 1.6% in December. The ECB has a target inflation rate of below, but close to, 2%.

South East Asia

The outlook for Japan's key export market appears clouded, dampened by the ongoing trade conflict between the US and China. Exports fell at an annualised rate of 3.9% in December, curbed by slower demand from Asia. Meanwhile, the Japanese yen rose to its highest level against the US dollar since April 2018 during January. Investors tend to regard the Japanese yen as a safe haven during periods of financial instability.

On a visit to the UK, Japanese Prime Minister Shinzo Abe pledged to "deepen" the strategic partnership between Japan and the UK following Brexit. He urged the UK Government to do its utmost to avoid a no-deal Brexit and emphasised the need to maintain "legal stability" for businesses that have invested in the UK.

Over the fiscal year 2019, Japan's government expects the country's economy to grow by 1.3%, while inflation is forecast to grow by 1.1%. However, inflation remains subdued: annualised core consumer price inflation slowed to a rate of 0.7%, well below the Bank of Japan's (BoJ's) target rate of 2%. The BoJ maintained its monetary policy stance in January, but cut its inflation forecast for 2019 from 1.4% to 0.9%, citing the impact of lower energy prices.

Retail sales were stronger than anticipated in December, rising at an annualised rate of 1.3%. Activity was boosted by stronger demand for clothing and home appliances. An increase in consumption tax is scheduled to take effect in October this year.

During January, the benchmark Nikkei 225 Index rose by 3.8%, while the broader-based Topix Index climbed by 4.9%. In comparison, the TSE Second Section Index rose by 7.1% – which represents medium-sized Japanese companies that tend to be more exposed to the domestic economy – rose by 8% over the month.

Economic growth in South Korea picked up during the fourth quarter of 2018 as government spending helped to offset a slowdown in exports. The country's economy expanded at an annualised rate of 3.1% over the final three months of the year, compared with third-quarter growth of 2%. However, the economy grew by only 2.7% during 2018 as a whole, having expanded by 3.1% in 2017. Elsewhere, Samsung Electronics, which makes up around 27% of South Korea's market, issued a profit warning against a backdrop of rising competition and weaker demand for chips. The Kospi Index rose by 8% over January.

Global Emerging markets

After a strong December, emerging markets generated a more muted performance in January. Nevertheless, emerging economies are expected to continue to drive global growth: the International Monetary Fund (IMF) believes that economic growth in emerging markets will slow from 4.6% in 2018 to 4.5% in 2019, and then to improve to 4.9% in 2020, whereas the global economy is forecast to grow by 3.5% this year and 3.6% next year. One of the principal risks to growth in emerging markets appears to be the ongoing trade dispute between the US and China. The IMF urged countries to "resolve co-operatively and quickly their trade disagreements … rather than raising harmful barriers further and destabilising an already slowing global economy".

China's economic growth continued to lose momentum during the final three months of 2018, expanding at an annualised rate of 6.4% during the fourth quarter, compared with third-quarter growth of 6.5%. Over 2018 as a whole, China posted growth of 6.6%, slightly exceeding the official government-set target for the year of 6.5%.

Looking ahead, the IMF expects China's economic growth to slow to 6.2% in 2019 and in 2020 as financial regulatory tightening and trade tensions with the US takes effect.

China's annualised rate of consumer price inflation eased from 2.2% in November to 1.9%, and manufacturing output continued to contract in January. Exports dropped during December, falling by 4.4% compared with November, while imports declined by 7.6%, dampened by the trade conflict with the US. Over 2018 as a whole, imports rose by 15.8% and exports rose by 9.9%. The Shanghai Composite Index rose by 3.6% during January.

Official full-year growth estimates suggest that India's economy will grow by 7.2% in the fiscal year ending in March 2019, compared with last year's rate of 6.7%. The IMF predicts that India's economy will expand by 7.5% in 2019 and by 7.7% in 2020, underpinned by lower oil prices and slower-than-expected monetary tightening.

Falling food prices curbed inflationary pressures in India during December: the annualised rate of consumer price inflation fell from 2.33% in November to 2.19% in December. Meanwhile, wholesale prices declined from 4.64% to 3.8%, checked by lower prices for fuel. Elsewhere, growth in industrial production fell to 0.5% during November, dampened by a decline in manufacturing output. The CNX Nifty Index fell by 0.3% over the month.

Happy birthday to tax-free savings

The arrival of the new tax year on 6 April means it is time to consider your Individual Savings Accounts (ISA) investments, which will celebrate their 20th birthday in April.

Over the last 20 years, the maximum annual contribution has risen from £7,000 per tax year to £20,000 for 2019/20. If you managed to set aside the maximum each tax year since 1999/2000, you would now have placed over £205,000 into ISAs and largely out of HMRC's reach.

The relatively simple single investment option has also morphed into a range of plans covering everything from retirement planning (the Lifetime ISA) to children's saving (the Junior ISA).

However, one aspect has been common throughout the ISA's lifetime: new investment is concentrated at the end of the tax year. For example, in the 2017 calendar year Investment Association data shows that net ISA investment in the second quarter was £1,421 million against a net total of £1,068 million for the entire year (the first and fourth quarter showed net outflows).

This means, if you are in that 'leave-it-until-the-last-moment' majority, now is the time to start thinking about your 2018/19 ISA investment.

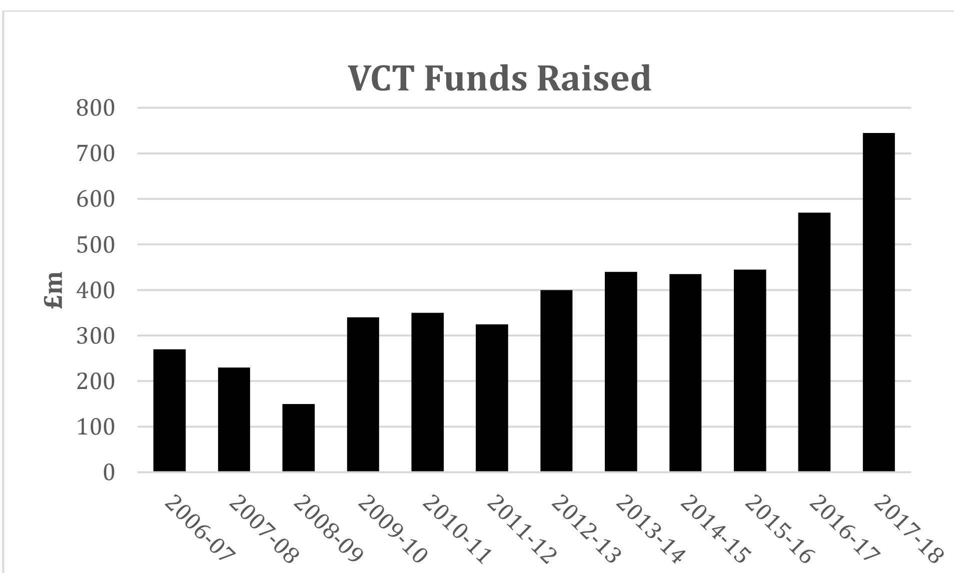
Whilst the value of ISAs has changed over 20 years, as successive Chancellors have altered the tax treatment of interest, dividends and capital gains, the main tax advantages are largely unchanged:

- There is no UK income tax to pay on interest, whether from cash or fixed interest securities. With low interest rates and the personal savings allowance of up to £1,000, this benefit is less valuable than it once was.
- There is no UK tax to pay on dividends – This is a more valuable benefit now the dividend allowance is £2,000 and even basic rate taxpayers can face 7.5% dividend tax.
- There is no capital gains tax on profits.
- There is no personal reporting to HMRC.

One extra feature added in recent years is the ability to allow ISAs to be effectively transferred to a surviving spouse or civil partner on first death. However, ISAs ultimately remain liable to inheritance tax unless appropriate AIM-listed investments are chosen.

For year-end ISA investments and a review of your existing holdings, please contact us.

Money pouring in to VCTs, despite the risks
Investment in venture capital trusts (VCTs) is continuing to rise as we head in to 2019/20.



VCTs have been growing in popularity in recent years, as the graph shows. Nearly £750 million was invested in VCTs in 2017/18, the highest figure since 2005/06, when the rate of income tax relief was temporarily boosted to 40% (against the current 30%).

There were two main reasons for the surge in popularity in the past couple of years:

- The restrictions on the pension lifetime allowance and the annual allowance have meant that an increasing number of high earners have been seeking alternatives to pension contributions. With HMRC taking an ever-stronger stance towards tax avoidance schemes, VCTs are one of the few areas outside pensions where tax relief is available with a government stamp of approval.
- Last summer the Treasury published a consultation paper on 'patient capital' that indicated new investment restrictions for all venture capital schemes. These details were confirmed in the 2018 Budget, but by then many VCTs had raised substantial funds helped by a buy-now-while-stocks-last message.

The revised investment rules need to be borne in mind if you are thinking about investing in VCTs to reduce your 2018/19 tax bill, because they have made investment in VCTs more risky.

The Finance Act 2018 says that when a VCT invests in a company there must be "a significant risk that there will be a loss of capital of an amount greater than the net investment return". It is therefore all the more important to choose your VCT provider(s) with care. An existing track record may have been based on an investment approach which would not satisfy the Finance Act 2018 rules.

For information on the VCTs currently available, please talk to us. Despite the risks, the tax advantages mean that the more attractive issues can disappear within days.

Preparing for the new tax year

One of the few certainties about 2019 is that the mew tax rates and thresholds will take effect from the start of the 2019/20 tax year on 6 April.

Whilst the focus tends to be on year-*end* tax planning at this time of year, it is important to look forward to the new tax year and the changes that it will bring.
From 2019/20 changes will come into effect for key income tax rates and thresholds, as well as pensions.

There are two inflation-busting income tax changes:

- The personal allowance will rise by £650 (5.5%) to £12,500; and
- The higher rate threshold will rise by £3,650 (7.9%) to a neat £50,000. However, in Scotland the higher rate threshold (for non-savings, non-dividend income) will be frozen at £43,430.

The personal allowance and higher rate threshold will remain unchanged in 2020/21, so the impact of the above-inflation increase will be soon eroded.

A corollary of the increased higher rate threshold, outside Scotland, is that the upper limit of earnings on which full rate employee/self-employed National Insurance Contributions (NICs) are payable will also rise to £50,000.

The net effect is to claw back a significant slice of the income tax saving and, in Scotland, leave earnings in a band between £43,430 and £50,000 suffering a combined income tax (41%) and NICs rate (12% for employees) of up to 53%.

The ceiling for automatic enrolment pension contributions will also increase to £50,000. This, combined with the increase in the minimum overall contribution rate from 5% to 8%, means, in many instances, a jump in employee net contributions of about two thirds from the current level. So, if the new higher rate threshold takes you out of higher rate tax, your net contributions could more than double.

The other change affecting pensions is a small increase in the lifetime allowance of £25,000 – this sets the maximum tax-efficient value of pension benefits at £1.055 million.

For more information on how these changes will affect you and how you might counter some of the unwelcome side effects, please talk to us, before the end of the current tax year.

Inheritance tax reductions ahead of potential reform

Inheritance tax (IHT) will be slightly reduced for some from 6 April 2019, but greater reforms may arrive soon.

The IHT residence nil rate band (RNRB) increases by £25,000, bringing it to £150,000 for the 2019/20 tax year. In theory that means a married couple can pass on up to £950,000 (2 x nil rate band of £325,000 + 2 x RNRB of £150,000) to their heirs free of tax.

In practice matters are much more complicated, as eligibility for the RNRB comes with a variety of conditions primarily designed to limit the cost to HM Treasury.

A final £25,000 increase in the RNRB happens in April 2020, increasing the available band to £175,000 and the theoretical IHT-exempt estate up to £1 million. There is some doubt, however, whether this will happen, at least as legislation currently envisages. The reason for that uncertainty is a review of IHT, which the Chancellor requested from the Office of Tax Simplification (OTS) in January 2018.

The first part of the OTS review was published last November. It detailed over 3,000 responses to their consultation and made a range of proposals for simplifying IHT administration.

The second part of the review, which examines the "key technical and design issues" is due in spring. It would not be surprising if the OTS suggested some reform of the RNRB, which it said, "attracted a lot of comments … due to its complexity and because those who do not have children, or their own home, may not be covered by it".

One obvious possibility would be to enlarge the nil rate band and scrap the RNRB, but as the OTS noted "any changes would of course involve an Exchequer cost". Mr Hammond's predecessor turned down such a suggestion, despite heavy criticism of the RNRB's legislative complexity.

In the meantime, as the end of the tax year approaches the regular IHT exemptions need to be considered. These are currently:

- £3,000 annual exemption for gifts
- £250 per person small gifts exemption; and
- The normal expenditure exemption, which broadly speaking exempts any gifts that are:
    - made regularly;
    - made out of income; and
    - do not reduce the standard of living of the person making the gift.

For more information on the exemptions and how they can be used, please talk to us. As with much else in IHT, the exemptions contain their own traps for the unwary.

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