We have pleasure in issuing our newsletter for January 2019 that includes a detailed monthly commentary covering world equity markets in December together with a review of markets in 2018 and other topical articles that we hope you find interesting.

2018 was a very different year for investors from 2017. During that year, the share markets generally produced positive returns with very little volatility. Both years had their fair share of dramas, with Brexit and Donald Trump sources of concern across the 24 months. However, whereas in 2017 stock markets seemed relatively unphased by events, the opposite was true in 2018.

The MSCI World Index fell by 10.4% over the year as a whole, dragged down by widespread economic and political concerns.

In sterling terms, the MSCI World Index was down 4.9%, much less than the main UK indices. However, this hides two factors:

1. The US stockmarket, which forms about half of the World Index, was relatively strong. Strip that out and the MSCI World Index ex-USA was down 11.2% in sterling terms, only marginally less than the main UK indices.

2. The Brexit-battered pound was weak during 2018, which flattered overseas returns.

In the UK, the main indices produced their worst annual return since the financial crisis year of 2008. As a result, the UK stock market now has an average dividend yield of nearly 4.5%, the highest level since 2009.

If you are investing for income that yield is undoubtedly attractive. We're always here to discuss your portfolio and options – and 2019 is going to be an interesting year.

Our model portfolios, whilst performing broadly in line with their respective benchmarks, fell in value for the first time since 2011.

Whilst markets have rallied strongly in the first week of January, it is likely that the current volatility will continue in the first quarter of 2019, particularly given the current Brexit uncertainties in the UK.

Our model portfolios have been realigned to reflect the current economic climate, particularly in the lower risk asset classes and we will be contacting clients this month with details of our fund switches and rebalancing proposals which we recommend implementing as soon as possible.

AM&A | Investment & Pension Planning Limited

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.

Wishing you all the best for a happy and prosperous 2019.

David Marks – Director **Stephen Goldman – Director**

Kinetic Business Centre
Theobald Street
Borehamwood
Herts WD6 4PJ

Telephone 020 8387 1231
Fax 020 8387 4004

Contacting us via email: deborahgoldman@amaipp.com
David Marks: davidmarks@amaipp.com
Stephen Goldman: stephengoldman@amaipp.com

AM&A Model Portfolios
Performance Data to 31 December 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, 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	-1.8	-3.7	-3.4	-4.0	2.7	11.9	
Defensive Portfolio	-3.1	-5.4	-4.4	-4.4	8.3	18.8	73.2
Benchmark IMA Mixed 0-35% Index (Defensive)	-1.1	-3.0	-2.8	-3.4	9.9	15.7	56.2
AM&A Cautious Portfolio							
Moderately Cautious Portfolio	-4.7	-8.3	-6.9	-5.9	14.1	25.5	105.3
Benchmark IMA Mixed 20-60% Index (Cautious)	-2.5	-5.4	-4.7	-5.1	12.2	19.1	73.3
AM&A Balanced Portfolio							
Balanced Portfolio	-5.6	-9.6	-8.0	-6.4	19.4	33.6	138.7
Benchmark IMA Mixed 40-85% Index (Balanced)	-3.9	-7.9	-6.6	-6.1	16.5	25.5	101.3
AM&A Moderately Adventurous Portfolio							
Moderately Adventurous Portfolio	-6.3	-11.0	-9.2	-7.0	27.5	39.1	166.2
Benchmark IMA Flexible Managed Index	-4.2	-8.3	-7.0	-6.7	18.0	26.3	106.6
AM&A Adventurous Portfolio							
Adventurous Portfolio	-7.1	-12.4	-10.2	-7.8	26.8	42.6	183.1
Benchmark AFI Aggressive	-5.3	-10.6	-9.2	-8.1	21.8	34.7	135.9
AM&A Aggressive Portfolio							
Aggressive Portfolio	-6.7	-11.4	-7.5	-3.3	39.2	48.1	183.9
Benchmark IMA Global	-6.8	-11.5	-8.1	-5.8	32.5	45.8	150.6

Source: Financial Express, 1 January 2019

Market Overview December 2018

2018 proved to be the worst year for global markets since 2008. The MSCI World Index fell by 10.4% over the year as a whole, dragged down by widespread economic and political concerns. Markets seesawed during December as investors reacted to news flow over Brexit, trade tensions, and the prospect of a shutdown of the US government.

UK

Brexit descended into confusion during December. The government was found to be in contempt of Parliament for refusing to publish the full legal advice on Prime Minister Theresa May's Brexit deal. Mrs May subsequently postponed a House of Commons vote on her Brexit deal, which had been scheduled for 11 December, amid expectations that the government would lose. Elsewhere, the European Court of Justice found that the UK could cancel Brexit without needing consent from other EU member states.

News flow and investor sentiment were dominated by Brexit in December. Having managed to agree a Brexit deal with the EU in November, the government was subsequently found to be in contempt of Parliament for refusing to publish the full legal advice on the agreement. Prime Minister Theresa May later took the controversial decision to postpone the "meaningful vote" on the deal, which had been scheduled for 11 December, amid widespread expectations that it would be voted down. She warned: "Avoiding no deal is only possible if we can reach an agreement or if we abandon Brexit entirely". The "meaningful vote" is set to be held before 21 January 2019 and, with less than three months to go until the Brexit date of 29 March, it is still unclear whether the deal will be approved.

During December, HMRC issued updated advice to UK business on how to cope with a no-deal Brexit; elsewhere, the European Court of Justice ruled that the UK could unilaterally cancel Brexit without the consent of other EU member states. Leading UK business groups, including the Confederation of British Industry (CBI) and the British Chambers of Commerce (BCC) urged MPs to focus on reaching a deal, commenting: "Businesses have been watching in horror as politicians have focused on factional disputes … the lack of progress in Westminster means that the risk of a no-deal Brexit is rising".

Retail sales volumes rose at a month-on-month rate of 1.4% during November as Black Friday provided a boost for activity. However, over the three months to November, growth was a more muted 0.4%. Clothing chain Bonmarché issued another profit warning and commented: "We believe that uncertainty surrounding Brexit is a significant factor affecting demand and, therefore, that it may not strengthen until the current period of heightened uncertainty ends". Online fashion retailer Asos also issued a profit warning, citing the impact of heavy discounting and promotional activity across the sector.

UK equity indices fell during December and over 2018 as a whole, and medium-sized companies – which tend to be more exposed to the domestic UK economy – performed more poorly than their larger counterparts. The FTSE 100 Index fell by 3.6% over December and by 12.5% over 2018, while the FTSE 250 Index fell by 5.3% during the month and by 15.6% over the year.

North America

Although US equity markets hit record highs during 2018, they ended the year in negative territory, pulled down by concerns over trade tensions, rising interest rates, a partial shutdown of the federal government, and wider worries about the outlook for global economic growth.

As expected, the Federal Reserve (Fed) raised its key federal funds rate in December by 25 basis points to a range of 2.25% to 2.5%. Economic growth is expected to slow down in the US, and the Fed downgraded its economic growth predictions in 2019 from 2.5% to 2.3%. Looking ahead, the Fed expects to implement only two interest-rate increases in 2019, instead of three. Relations between the central bank and President Trump continued to deteriorate as the President described the Fed as the US economy's "only problem" and accused officials of not having "a feel for the market".

Investor optimism was further dented by a shutdown of approximately 25% of the federal government as President Trump reached stalemate with the Democratic Party over the funding of his controversial border wall. The shutdown is set to affect the US Commerce Department, which will not release economic data including GDP and inflation data. Elsewhere, US Treasury Secretary Steve Mnuchin failed to reassure investors by unexpectedly revealing that he had called the chief executives of the six largest US to confirm that they have "ample liquidity available for lending to consumer, business markets, and all other market operations".

Meanwhile, sentiment was further dampened by a partial government shutdown as President Trump clashed with Democrats over funding for a border wall between the US and Mexico.

Investors were briefly buoyed by an agreement between the US and China to postpone new trade tariffs for 90 days following a G20 summit in Buenos Aires. New US tariffs on Chinese goods had been scheduled to take effect on 1 January 2019, but a temporary truce will postpone their implementation; meanwhile, China will purchase a "substantial" quantity of US products in a move designed to reduce the trade imbalance between the two countries. Nevertheless, investors' relief was quickly tempered by President Trump, who stated: "I am a Tariff Man".

The S&P 500 Index experienced its worst December since 1931, falling by 9.2% over the month. Over the year, it posted a 6.2% decline.

In comparison, the Dow Jones Industrial Average Index fell by 8.7% during December and by 5.6% over 2018, and the technology-rich Nasdaq Index declined by 9.5% over the month and by 3.9% over the year.

Europe

The European Commission announced that it had begun to carry out contingency measures for a no-deal Brexit. Italy agreed to cut its controversial budget deficit target for 2019 in order to avoid being penalised by Brussels. In France, increases in fuel tax were put on hold following violent public protests; however, the move is likely to result in budget cuts. The CAC 40 Index fell by 5.5% over the month and by 11% over the year.

Despite concerns that the eurozone's economic expansion is showing signs of faltering, the European Central Bank (ECB) confirmed that its programme of quantitative easing measures was ending at the end of 2018 as planned. ECB President Mario Draghi warned that "the balance of risks is moving to the downside", and central bank officials have trimmed their economic growth forecast for 2019 to 1.7%, citing uncertainties including volatility in financial markets, geopolitics, rising protectionism, and weaknesses in emerging markets. Looking ahead, policymakers intend to maintain their current monetary policy stance for "as long as necessary" in order to achieve their inflation target of around 2% whilst maintaining favourable liquidity conditions.

Sweden's Riksbank raised its key interest rate for the first time since 2011 in December. Policymakers implemented an increase of 0.25 percentage points during the month, although rates remained in negative territory at -0.25%. Looking ahead, the central bank expects to implement a further two rate increases during the second half of 2019.

In a bid to protect the EU from disruption in areas such as finance, transport, and customs, the European Commission (EC) announced that it had initiated the implementation of contingency measures for a no-deal Brexit. Nevertheless, the EC stressed that its measures could not "mitigate the overall impact of a no-deal scenario". EC Vice-President Valdis Dombrovskis described the measures as "an exercise in limiting damage".

Fuel-tax rises were postponed by the French government in December following violent public demonstrations. However, the decision is expected to result in budget cuts and credit ratings agency Fitch warned that France faces ongoing challenges to reducing public debt. Looking ahead, planned future reforms could become harder to implement if President Macron is forced to embrace a more consensual approach, and scope for an expansionary fiscal policy is likely to be limited.

Elsewhere, Annagret Kramp-Karrenbauer took over from Angela Merkel as leader of Germany's Christian Democrat Union, becoming a contender for the position of Chancellor when Mrs Merkel's term ends in 2021. The Dax Index fell by 6.2% during December and by 18.3% in 2018. Italy bowed to pressure from Brussels and agreed to revise its 2019 budget deficit target in order to avoid sanctions. The FTSE MIB Index fell by 4.5% in December and by 16.1% in 2018.

South East Asia

Japan's economy contracted at an annualised rate of 2.5% during the third quarter of 2018, compared with an earlier calculation of -1.2%. Activity was curtailed during the year by a series of natural disasters. Looking ahead, Japan's economy faces headwinds including the possibility of a no-deal Brexit, rising US interest rates, trade tensions between the US and China, and signs of a slowdown in China. A long-awaited increase in consumption tax will be implemented in October 2019 and, on balance, central bank policymakers are likely to wait until this has taken effect before deciding to tighten monetary policy.

The Nikkei 225 Index fell by 10.5% during December and by 12.1% over 2018, while the Topix Index fell by 10.4% over the month and by 17.8% over the year. Meanwhile, the TSE Second Section Index fell by 12.3% over December and by 14.3% over 2018.

Export growth in Japan decelerated during November, easing from 8.2% year on year in October to only 0.1%. Imports rose by 12.5% year on year, raising Japan's trade deficit to 737.3 billion yen. Concerns are mounting over the prospects for Japanese exports against a backdrop of slowing global economic growth and a rising climate of protectionism. Exports to the US rose at an annualised rate of 1.6% in November, compared with October's rate of 11.6%.

Australia's economic growth lost momentum during the third quarter of 2018, expanding at an annualised rate of 2.8%. Growth was adversely affected by a slowdown in household consumption and a lower build-up of business inventories. The data came in sharp contrast to a statement from the Reserve Bank of Australia (RBA), which expects the country's economy to post average annual expansion of 3.5% in 2018 and 2019. The ASX All Ordinaries Index fell by 0.7% during December and by 7.4% over 2018.

South Korea posted quarter-on-quarter economic growth of 0.6% during the three months to September, which was unchanged from the second quarter. On an annualised basis, the economy expanded by 2%, which was lower than the second-quarter growth of 2.8%. South Korea's economy relies heavily on exports, and there are concerns that trade tensions between the US and China could undermine activity, despite a recent break in hostilities between the two countries. The Kospi Index fell by 2.7% in December and by 17.3% over 2018.

Global Emerging Markets
Emerging markets performed better than broader world markets during December but underperformed global markets over 2018. China performed particularly poorly over the year as investor optimism fell prey to concerns over economic growth and the possible impact of a trade war. The Shanghai Composite Index fell by 3.6% over December and by 24.6% over 2018.

Following a protracted war over trade tariffs, China and the US finally agreed to put new levies on hold for 90 days following talks at the G20 summit in Buenos Aires. China's export activity decelerated sharply during November, rising at an annualised rate of only 5.4%, compared with October's rate of 15.6%. Imports rose by 3% in November, compared with October's rise of 21.4%. Meanwhile, during the first 11 months of the year, exports rose by 8.2% year on year, while imports grew by 14.6%. Over the same period, exports to the US rose by 9.4% – a slowdown compared with the 13.3% growth achieved in the first ten months of the year. Elsewhere, retail sales in China continued to weaken, and industrial production continued to lose momentum.

Governor of the Reserve Bank of India (RBI) Urjit Patel unexpectedly resigned in December, citing "personal reasons" for his departure. He was replaced by Shaktikanta Das. India posted annualised economic growth of 7.1% during the second quarter of its fiscal year, compared with growth of 8.2% in the first quarter. Credit ratings agency Moody's warned that a protracted period of economic weakness could jeopardise India's "Baa2" rating. The CNX Nifty Index edged 0.1% lower over December but rose by 3.2% over 2018.

Brazil's annualised rate of consumer price inflation slowed to 4.05% – its lowest level in six months – during November, giving policymakers at Brazil's central bank the opportunity to maintain the key Selic rate at 6.5% at their December meeting. The Bovespa Index fell by 1.8% in December but rose by 15% over 2018.

Members of Opec (Organization of the Petroleum Exporting Countries), alongside a Russian-led group of non-Opec countries, announced that oil production would be cut by 1.2 million barrels per day for six months from 1 January 2019 in a bid to support energy prices. Despite this, concerns over the outlook for global economic growth undermined the price of oil later in December, amid fears that a slowdown could dampen demand for energy.

New earnings thresholds for auto-enrolment
In early December the Department for Work and Pensions (DWP) announced the thresholds that should apply to automatic enrolment pension contributions from 6 April 2019. We say 'should' because, strictly speaking, they need final approval from the Secretary of State, although any change is extremely unlikely.

There are three key levels to be aware of:

- **The Earnings Threshold** This is the trigger level of earnings which brings a 'worker' into automatic enrolment. It used to match the personal allowance, but since 2015/16 has been frozen at £10,000. That round number will stay in place for the coming tax year.
- **The Qualifying Earnings Lower Limit** This is the floor level of earnings above which contributions are payable, but only if the earnings threshold is triggered. It matches the lower earnings limit, which is a key level for social security benefit entitlement and will be £6,136 (£118 a week) in 2019/20, an increase of £104 (£2 a week).
- **The Qualifying Earnings Upper Limit** This is the upper level of earnings on which contributions are payable. In past years it has matched the UK higher rate threshold. The same will be true for 2019/20, despite the £3,650 increase in that threshold to £50,000. This is not good news for Scottish taxpayers, whose own higher rate (41%, not 40%) threshold for earned income is set to be £43,430 in 2019/20.

Increasing contribution rates
These numbers take on more significance for 2019/20, as the minimum total auto-enrolment pension contribution rate will increase from 5% to 8% of qualifying earnings. Of the 8%, the minimum payable by the employer will be 3%, meaning many employees will see their contribution rate jump from 3% to 5% – a two thirds rise.

If you are an employee in an auto-enrolment pension scheme, then you could well find that April's increase in your pension contributions will more than counter the benefits of the income tax cuts which occur at the same time. If you are an employer, you may want to warn your employees of the forthcoming changes.

The 8% contribution level will mark the end of current round of planned increases for auto-enrolment. However, the general consensus is that 8% is too low to achieve a decent retirement income. To explore what level of contribution is appropriate in your circumstances, please get in touch.

Shake up your New Year's resolutions

Have your New Year resolutions fallen by the wayside yet? You know, the ones about eating better, drinking less and exercising more. The problem is they all require you to make a change to your lifestyle, which is never easy, particularly in the dark days of mid-winter.

Some people prefer to talk about intentions rather than resolutions. And to try to look beyond the short-term goals to longer term outcomes to boost the likelihood of sticking to them.

Here are four simple financial New Year's resolutions. They need only one-off actions, so they should be easier to stick to. And they could provide long term benefits:

1. **Make a will.** If you don't have a will, you have no say in how your estate is distributed. That may not matter if the laws of intestacy match your wishes, but often the two diverge considerably, leaving difficult issues for your dependants. If you have made a will, you are not completely off the hook: resolve to look at it and make sure it is still the right will for your current circumstances.

2. **Set up lasting powers of attorney.** Who would make decisions about your finances and medical treatment if you were unable to do so? Just as with a will, a lasting power of attorney lets you decide the answer rather than falling back on what the state determines or leaving your family without the ability to really help you.

3. **Check what you are earning on your deposits.** Many banks and building societies continue to pay negligible rates on accounts that are "no longer available" to new savers. Just because an account has 'gold' in its title is no guarantee that it won't be paying a mere 0.1%.

4. **Check your state pension entitlement.** This is easy to do online (https://www.gov.uk/check-state-pension) and shows both what you should receive based on current rates and when you should start to receive it. The projection will also indicate any scope you have for increasing your state pension.

For help with any of these resolutions (not the food, drink and exercise ones!), please talk to us.

Understanding the Child Benefit Charge

7 January marked the fifth anniversary of the tax on child benefits, an imposition that is still not widely understood.

The High Income Child Benefit Charge (HICBC), to give child benefit tax its correct name, was introduced in a rush by George Osborne – so much so that it began three months before the start of the 2013/14 tax year. It was, and remains, a classic example of the type of tax system tweaking beloved of Chancellors and disliked by those who have to deal with the consequences.

The HICBC represented an attempt to use the income tax system to withdraw child benefit from parent(s) (married or not) where one had income exceeding £50,000. Its introduction was poorly publicised, leaving many people – particularly PAYE earners – unaware of their potential liability.

If proof were needed of the flaws in HICBC, it arrived in November 2018. That was when HMRC announced it would be reviewing 'Failure to Notify" penalties for 2013/14, 2014/15 and 2015/16 "to customers [sic] who did not register for the High Income Child Benefit Charge" and therefore did not pay the HICBC tax. Unusually for HMRC, it is not looking for the taxpayer to provide a "reasonable excuse" before considering a refund. It may be hoping to avoid a flood of letters from those affected.

The income trigger for the HICBC remains at £50,000. That means that for 2019/20 the trigger matches the UK higher rate threshold. When it began, the charge started at over £7,500 above the then threshold.

The tax is levied in a unique way: for each £100 of income above the threshold, tax is payable equal to 1% of the child benefit received. For example, an income of £56,000 would mean an HICBC of 60% of total child benefit – 60% of £1,789 (=£1,073) for a two-child family.

Failure to claim child benefit can mean a loss of national insurance credits, so it's important to avoid this pitfall. If you or your partner are, or may be, caught by HICBC, there are several planning options to consider, which we would be happy to discuss.

Filling the pensions hole for the self-employed

The Department for Work and Pensions (DWP) is aiming to expand pension coverage among the self-employed.

Pension automatic enrolment has become a major success since it was launched nearly seven years ago, with almost 10 million people joining a workplace pension arrangement. Take-up rates have been much higher than some pundits had forecast – the latest calculation from the DWP showed that in 2016/17 the overall opt out rate was just 9%.

However, there is one group of people that the automatic enrolment regime completely misses: the self-employed. According to the DWP, the self-employed account for about 15% of the UK workforce – 4.7 5 million people. Private pension coverage in this sector is low, despite the tax benefits on offer. The DWP has calculated that in 2016/17, only about 1 in 7 of the self-employed were saving into a pension.

In December the DWP announced that it would be running a programme of trials aimed at encouraging the self-employed to start saving. These trials will involve a range of trade bodies and financial services organisations, including the main government initiated auto-enrolment scheme, NEST, which now has over seven million members.

If you are self-employed and one of the 6 in 7 who is not yet saving for your retirement, you should not wait for the DWP to find ways to nudge you into action. The hard fact is that with no private pension provision, your retirement pension will simply be the new state pension – £168.60 a week (£8,767 a year) from April. Remember too that the state pension is only payable from state pension age, which is now in the process of rising to 66 by October 2020 and 67 by April 2028.

If you want a higher pension, and/or you do not want to wait until the state decides it is time for you to retire, then the sooner you begin to consider your retirement planning, the better. Talk to us about your options now – these could well include routes other than pure pension arrangements.

www.amaipp.com
Kinetic Business Centre | Theobald Street | Borehamwood | Hertfordshire WD6 4PJ
Tel. 020 8387 1231 | Fax. 020 8387 4004
Registered in England & Wales No. 5275457
Registered Office: 923 Finchley Road London NW11 7PE