

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

Investors who have more than £85,000 in savings are facing a sudden administrative headache. Until last month, savers could get 100% deposit protection on up to £1 million by putting it into one of NS&I's fixed-term bonds, offering 100% capital security, backed by HM Treasury.

At a stroke, this removes an option for savers with large cash balances they want to protect and leaves them reliant on the Financial Services Compensation Scheme (FSCS), which only covers them for £85,000 per bank. So, to keep more of their savings covered means opening multiple savings accounts with multiple banks which can be a big headache.

Fortunately, we have access to a number of cash management solutions to enable savers to increase their funds covered by the FSCS and at the same time get a better savings rate. If you would like to discuss these options with us, please get in touch.

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 30 June 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 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	ytd	1yr	3yr	5yr	10yr
AM&A Model Portfolios							
<u>AM&A Defensive Portfolios</u>							
Cash Alternative Portfolio	-0.2	1.3	-0.6	1.3	7.9	19.6	
Defensive Portfolio	-0.1	2.5	0.1	3.1	15.4	29.8	
Benchmark IMA Mixed 0-35% Index (Defensive)	-0.2	1.7	-0.6	1.3	12.6	22.0	
<u>AM&A Cautious Portfolio</u>							
Moderately Cautious Portfolio	0.0	4.2	1.1	5.5	25.0	42.8	102.9
Benchmark IMA Mixed 20-60% Index (Cautious)	-0.3	2.8	-0.4	2.4	16.7	30.9	62.5
<u>AM&A Balanced Portfolio</u>							
Balanced Portfolio	0.1	5.7	1.8	7.1	32.0	54.5	129.5
Benchmark IMA Mixed 40-85% Index (Balanced)	-0.2	4.9	0.5	4.9	24.1	43.4	84.2
<u>AM&A Moderately Adventurous Portfolio</u>							
Moderately Adventurous Portfolio	0.2	6.8	2.5	8.5	37.7	63.6	150.3
Benchmark IMA Flexible Managed Index	-0.3	4.4	0.2	5.0	25.4	44.7	79.0
<u>AM&A Adventurous Portfolio</u>							
Adventurous Portfolio	0.3	7.4	2.7	9.3	44.4	70.3	160.5
Benchmark AFI Aggressive	-0.6	5.8	1.3	8.0	35.4	57.9	111.6
<u>AM&A Aggressive Portfolio</u>							
Aggressive Portfolio	0.6	8.8	4.5	10.7	52.3	61.2	147.6
Benchmark IMA Global	0.1	7.9	2.5	9.1	44.0	70.1	128.7

Source Financial Express 1 July 2018

Market Overview June 2018

Financial markets in June were soured by the rapidly deteriorating trade relationship between the US and China. The International Monetary Fund (IMF) warned that the US's aggressive trade strategy risked harming the global economy and trading system and suggested that a trade war would result in "losers on both sides". During the month, China announced that it would impose levies of 25% on 545 US products worth a total of US\$34 billion, and the EU announced a series of tariffs on £2.8 billion-worth of US products. Canada and Mexico also announced a range of levies.

The US Federal Reserve (Fed) raised its key interest rate during June by 0.25 percentage points to a range of 1.75% to 2%. This was the second increase so far this year; looking ahead, policymakers are predicted to raise rates again twice this year and three times next year. The tone of Fed officials shifted: previous wording stating that interest rates will remain "below levels expected to prevail in the longer run" was omitted this month. The Dow Jones Industrial Average Index fell by 0.6%.

The European Central Bank (ECB) confirmed that it will conclude its economic stimulus measures at the end of this year. Assuming the economic outlook remains positive, the central bank's programme of bond purchases is set to halve from €30 billion per month to €15 billion per month, finishing at the end of December. Meanwhile, Germany's economic outlook has deteriorated, according to the Ifo Institute. The Dax Index fell by 2.4% over the month, while the CAC 40 Index fell by 1.4%.

Pressure on the UK intensified to resolve Brexit. European Council President Donald Tusk urged the UK to "lay the cards on the table", cautioning that the most difficult issues remain unresolved and progress is vital in order for both sides to reach agreement by October. Bank of England (BoE) Governor Mark Carney highlighted the UK's "rock solid solution" to a "disorderly Brexit" but said he was still awaiting Europe's input, warning the issue could not be resolved by the private sector. Although BoE policymakers left base rate unchanged at their June meeting, the likelihood of an increase at their August meeting has increased. Three members of the nine-strong Monetary Policy Committee (MPC) voted to raise rates from 0.5% to 0.75%. The FTSE 100 Index fell by 0.5% during June.

National Savings & Investments (NS&I) slashes its maximum deposit limit

Investors who have more than £85,000 in savings are facing a sudden administrative headache. Until last month, savers could get 100% deposit protection on up to £1 million by putting it into one of NS&I's fixed-term bonds, offering 100% capital security, backed by HM Treasury.

In mid-June NS&I announced a revision to the terms of its popular Guaranteed Growth and Guaranteed Income Bonds. The interest rates were left unchanged, but the maximum investment per person, per issue was cut by 99%, from £1 million to £10,000.

However, these bonds have proven perhaps a bit too popular with large savers, prompting NS&I to make a change.

At a stroke, this change removes an option for savers with large cash balances they want to protect and leaves them reliant on the Financial Services Compensation Scheme (FSCS), which only covers them for £85,000 per bank. So, to keep more of their savings covered means opening multiple savings accounts with multiple banks which presents a big administrative challenge.

Fortunately, we have access to a number of cash management solutions to enable savers to increase their funds covered by the FSCS and at the same time get a better savings rate. If you would like to discuss these options with us, please get in touch.

Important interest rate announcements were made in June, both in the UK and the US.

The US Federal Reserve announced its seventh 0.25% increase in interest rates since December 2015, taking the level to 1.75%-2.00%. The rise had already been incorporated in market prices by the time it arrived, so of more interest were the press release and other papers which accompanied the announcement. These pointed to two more rate rises in 2018, and possibly three more in 2019. They also dropped a long-standing reference to interest rates remaining, "below levels that are expected to prevail in the longer run".

The following day the European Central Bank (ECB) decided to leave rates unchanged, again a widely anticipated move – the ECB has kept its main interest rate at zero since March 2016.

The market again focused on the background papers, which revealed the ECB's tapering of its quantitative easing (QE – so-called money printing) programme, will come to an end in December and that interest rates were expected to be unchanged, "at least through the summer of 2019". The first part was no surprise, but the statement on interest rates was not expected. The markets reacted accordingly, pushing the Euro down against the US dollar.

The relationship between central banks and investment markets is a curious one these days as the banks go out of their way to make sure markets are kept informed. As a result, the markets are now more interested in the next-but one action. The market responses to these recent rate announcements are two good examples.

The need for the banks to flag their intentions was underlined by the 'taper tantrum' of 2013, which happened when the Chairman of the US Federal Reserve first suggested that QE could be scaled back. Nobody thought QE would continue forever, but the mere hint that it might end gave global markets a shock, causing sharp movements in share prices, bond yields and currency rates.

Ultimately, the message from both the US and the Eurozone is the same: interest rates are set to rise, albeit at different paces, and QE will no longer be a prop to markets.

For insight into what this might mean for your investments and whether any changes are necessary, please talk to us.

Understanding what goes in to the FTSE100

The latest quarterly review of the FTSE 100 revealed common misunderstandings about how the index is drawn up. Every quarter FTSE Russell, which operates all the FTSE indices, decides which companies are promoted or demoted from the FTSE 100 index.

There had been speculation that the June review would see Marks & Spencer (M&S) replaced by Ocado. The high street chain has been a member of the Footsie since the index first appeared in 1984, so for the bricks and mortar shopping experience to be supplanted by an online-only retailer that did not arrive on the stock market until 2010 made for a good headline.

However, M&S did not check out of the FTSE100 and survives until the next quarterly review. What the journalists missed is that a company listed in the FTSE 100 is only ejected if its ranking drops below 110. Similarly, promotion into the FTSE100 requires a ranking of 90 or higher.

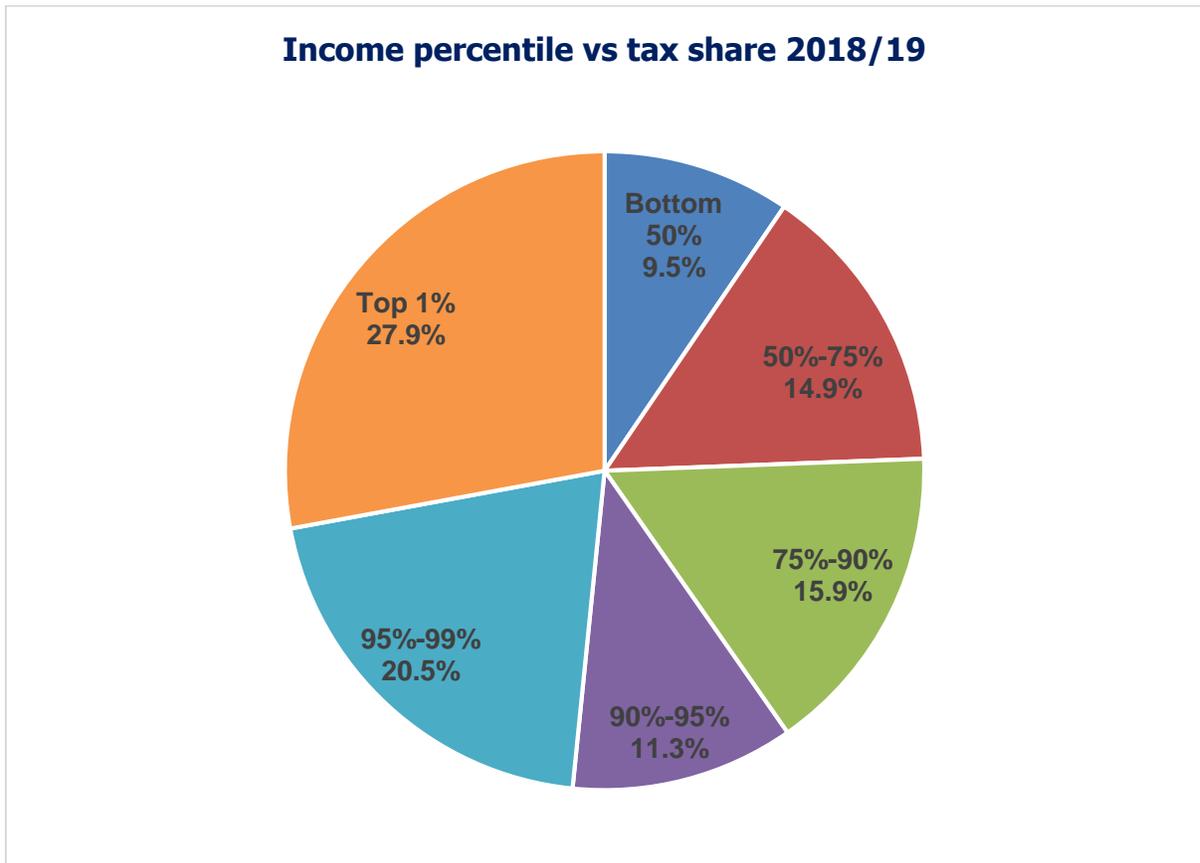
These rules are designed to avoid a large quarterly churn at the bottom tier of the index, and it works – only one other company, GVC Holdings, entered the index in June.

GVC is gaming company, based in the Isle of Man and listed in London. The main reason it entered the FTSE100 was that it took over a more familiar betting name, Ladbrokes Coral. To do so, GVC issued more shares and thus increased its all-important market capitalisation.

June's changes to the FTSE100 remind us that the construction and operation of stock market indices are not as simple as might be imagined. Whether you are considering investing in an index tracker fund or comparing fund performance against an index, it is a point to remember.

Top earners increase their share of tax payments

HMRC's latest statistics provide an insight into the income tax paying population.



The figures reveal changes in the distribution of tax revenue over the last decade, with a growing share now coming from higher earners.

The pie chart shows the proportion of 2018/19 tax expected to be paid by taxpayers in various bands of income. For example, the smallest wedge shows that the bottom 50% of income tax payers (those with annual income of up to £25,500) will provide 9.5% of all income tax receipts.

At the opposite end of the scale, the largest wedge is the top 1% (with incomes of at least £177,000) who will supply 27.9% of the £185 billion of income tax the Treasury hopes to receive for the current tax year. In other words, over a quarter of income tax comes from 'the 1%'.

The Exchequer's dependence on a small group of wealthy taxpayers is nothing new. However, the concentration has grown since the start of the decade. For example, in 2010/11 – when additional rate tax first appeared at the 50% rate – the contribution from the top 1% was 25.0%.

For the top 10% of taxpayers (with income of at least £57,500 in 2018/19), the tax share has risen from 53.5% in 2010/11 to 59.7% this tax year. Over the same period the bottom 50% have seen their share drop from 11.3% to 9.5%.

There are many reasons for the squeeze on high income groups. For example, the political imperative of above-inflation rises in the personal allowance has kept taxpayer numbers flat, which means more revenue must be extracted from a static taxpaying population suffering low earnings growth. Keeping a tight rein on the higher rate threshold and freezing the additional rate threshold at £150,000 have both added to the concentration on higher earners.

With the Chancellor dependent on high income taxpayers, he cannot afford to cut their taxes – hence the freezing of both the additional rate threshold and the £100,000 starting point for the taper of the personal allowance.

If you want to reduce your tax bill, the answer is not to wait for the next Budget – when taxes may rise to pay for the NHS funding boost – but to check with us that you are making the most of the current tax rules.

Saudi Arabia: the next emerging market

The June 2018 review of constituents for the main Emerging Markets Index has produced a few surprises. The MSCI Emerging Markets Index is one of the most important global stock market indices. JP Morgan, the US investment bank, estimates that nearly \$1,500 billion is either benchmarked against the index or directly tracks it, so there can be considerable implications for stock markets if the constituent countries of the Index change.

Last year's MSCI review saw Chinese mainland shares promoted to the Index, with that process now starting to take effect.

The 2018 review heralds two potential new arrivals in the MSCI Emerging Markets from May 2019:

1. Saudi Arabia should join the Index in a two-stage process (as is now happening with China). The first stage follows the May 2019 half-yearly index review, and the second as part of the August 2019 quarterly review.
2. Saudi Arabia will initially account for 2.6% of the Index, but it could become more important when Saudi Aramco, the state oil company, is partially floated, probably next year.

Argentina is set to return to the Index, having been demoted to 'Frontier Market' status in 2009. Ironically, the MSCI announcement almost exactly coincided with confirmation that that IMF had agreed \$50 billion of stand-by credit for the country.

At present Argentina represents almost a fifth of MSCI's Frontier Markets Index, so if it does move across, there will be a significant rebalancing of that index. Emerging markets have attracted considerable investor attention of late, partly because of China's ascendancy, but also because they appear to offer better value than developed markets.

If you wish to consider the regularly evolving emerging markets investment options, please talk to us.

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