We have pleasure in issuing our newsletter for May 2019 that includes a detailed monthly commentary covering world equity markets in April together other topical articles that we hope you find informative.

Having delayed Brexit from 29 March to 12 April, Prime Minister Theresa May agreed a new Brexit deadline of 31 October with EU leaders. As well as drawing out the uncertainty that has intensified over the last few months, this decision also means that the UK will have to take part in European Parliamentary elections in late May.

After a strong first quarter, equity markets continued their rally in April. This year's rebound has been driven by accommodative central banks, the expectation of a recovery in Chinese growth, and the anticipation of a resolution to Sino-American trade negotiations. Further support for the markets came from a solid start to the Q1 US earnings season. After earnings expectations had been revised sharply lower since the beginning of the year, with Q1 2019 estimates even falling into negative territory, companies were able to deliver positive surprises.

Please do not hesitate to contact us if you wish to discuss any articles in this month's newsletter or to review your own situation in greater detail.

Stephen Goldman
Managing Director

David Marks
Head of Investments

Office closure
Please note that our office will be closed on the following days this month: Monday 6th May (Bank Holiday) and Monday 27th May (Bank Holiday).

Theobald Street
Borehamwood
Hertfordshire WD6 4PJ
Tel 020 8387 1231
Email info@amaipp.com
www.amaipp.com
Follow us

AM&A Model Portfolios
Performance Data to 30 April 2019

The following table shows examples of percentage returns of AM&A risk rated model portfolios and market benchmarks using prices at the end of the last calendar month over 1 month, 3 months, year to date, 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	ytd	6m	1yr	3yrs	5yrs	10yrs
AM&A Model Portfolios								
AM&A Inflation Proofing Capital Preservation Portfolio	1.2	2.5	5.0	1.0	1.4	8.1	15.4	
Benchmark CPI		0.7	0.0	0.3	1.5	6.8	6.9	24.4
AM&A Defensive Portfolio	1.9	3.5	6.5	2.6	2.2	15.0	23.9	85.7
Benchmark IA Mixed 0-35% Index	1.0	2.8	4.6	3.2	2.2	13.2	19.4	66.0
AM&A Moderately Cautious Portfolio	2.7	5.1	8.6	3.2	2.6	23.2	35.3	119.6
Benchmark IA Mixed 20-60% Index	1.8	4.1	6.9	4.3	2.5	18.7	25.9	87.4
AM&A Balanced Portfolio	3.2	6.1	10.4	4.9	4.6	31.2	47.3	162.4
Benchmark IA Mixed 40-85% Index	3.0	6.1	9.6	5.8	4.1	27.3	37.2	121.5
AM&A Moderately Adventurous Portfolio	3.7	6.9	11.8	4.9	4.5	35.4	55.1	191.6
Benchmark IA Flexible Managed Index	2.9	5.7	9.5	5.8	3.3	29.3	38.8	123.9
AM&A Adventurous Portfolio	4.3	7.8	13.0	5.5	5.1	41.7	60.6	212.8
Benchmark AFI Aggressive Index	3.5	7.2	11.6	6.6	3.2	36.2	51.3	154.3
AM&A Aggressive Portfolio	4.5	10.0	15.1	9.3	11.6	59.7	74.6	205.2
Benchmark IA Global Index	4.2	9.3	14.4	8.4	9.1	49.3	68.4	188.0

Source: Financial Express, 1st May 2019

Market Overview April 2019

Having delayed Brexit from 29 March to 12 April, Prime Minister Theresa May agreed a new Brexit deadline of 31 October with EU leaders. As well as drawing out the uncertainty that has intensified over the last few months, this decision also means that the UK will have to take part in European Parliamentary elections in late May. European Council (EC) President Donald Tusk urged the UK to make the most of the extension, saying: "During this time, the course of action will be entirely in the UK's hands".

Mrs May's Brexit deal has already been rejected by UK MPs three times, and a variety of votes designed to break the impasse were all defeated in the House of Commons. The Government and Labour have held talks to try and reach a consensus about Brexit, but a no-deal Brexit remains on the table if MPs are unable to reach agreement. The FTSE 100 Index rose by 1.9% over April.

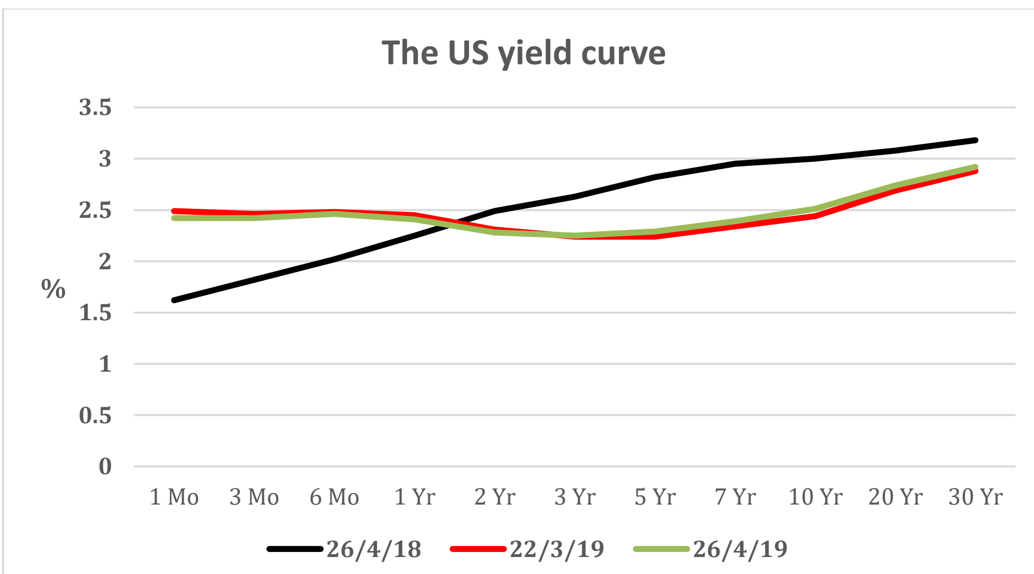
The US economy expanded at an annualised rate of 3.2% during the first three months of 2018, compared with the rate of 2.2% achieved in the fourth quarter of 2018. Growth was fuelled by export activity and inventory-building and the data helped to allay immediate concerns of an intensifying economic slowdown. The Dow Jones Industrial Average Index rose by 2.6% during April, and the S&P 500 Index and the technology-rich Nasdaq Index hit new highs over the month.

Having previously stated that it would maintain its ultra-low interest rate for an "extended period", the Bank of Japan (BoJ) provided fresh detail during April, stating that it did not intend to raise interest rates until "at least through around spring 2020". The BoJ also trimmed its forecasts for economic growth in 2019 from 0.9% to 0.6%, and in 2020 from 0.9% to 0.8%. The Nikkei 225 Index rose by 5% over the month.

Investors were cheered by the news that quarterly economic growth in the eurozone had rallied during the first three months of 2019, picking up to 0.4%, compared with expansion of only 0.2% in the final quarter of 2018. Export activity helped Italy to move out of recession during the period. Elsewhere, the rate of unemployment in the euro area eased from 7.8% to 7.7% in March. During April, the Dax Index rose by 7.1%.

Riding out investment bends

Professional investor interest has been focusing on US government bond yields, with potential lessons for long term investment.



Source: US Treasury

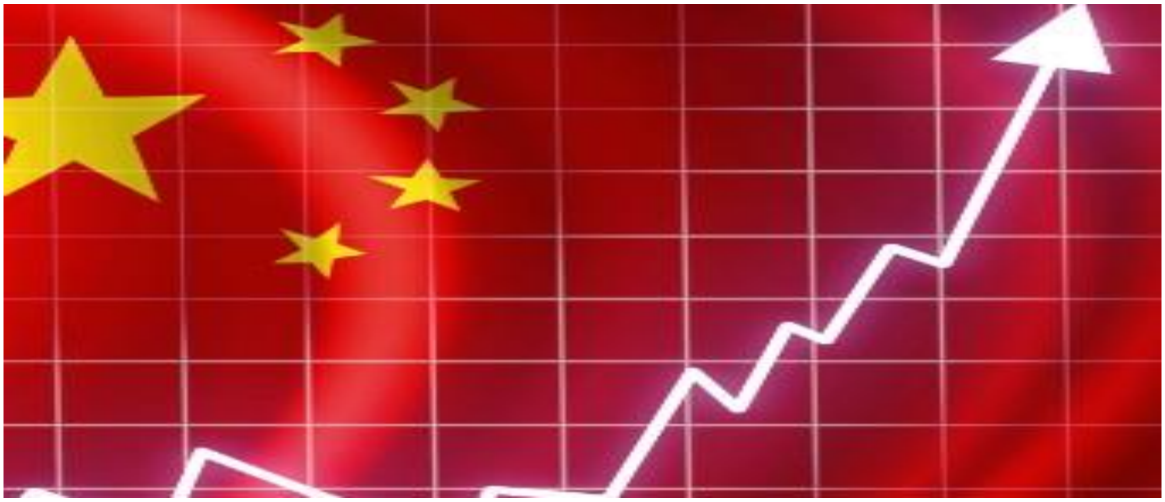
On 22 March the US stock market caught a sudden – and brief – chill. One of the main reasons was the red line in the graph shown above. This shows a yield curve plot, which shows the return an investor would receive from buying US Treasury securities, based on their term to maturity – from one month to 30 years. What happened on 22 March was that the yield on 10-year Treasury bonds fell below that of 3-month Treasury bills.

Usually the longer the term to maturity, the higher the yield, as demonstrated by the black line on the graph, which dates from one year ago. Intuitively that makes sense – the longer the period of time money is lent, the greater the risk that inflation will emerge to erode returns, so the higher the interest rate demanded.

History has shown that when yields fall with lengthening maturities – described as an inverted yield curve – a recession is imminent. The logic is that investors will accept a lower return from longer dated bonds because they anticipate short term rates will be cut to counter the impact of the recession. In the US, the reverse yield curve has a very good track record as a warning flag, which explains the stock market's reaction to the news.

Whether yield curve movements have retained their predictive capacity is now the subject of some debate. There are those who believe that central bank actions since the 2008 financial crisis have so distorted the bond market that the yield curve can no longer be trusted. On the other hand, there are experts who worry about the credibility of any 'This time it's different' message.

However, as the graph shows, the inversion has started to fade since March, meaning it may just have been a short-term blip. Certainly, US stock market investors seem to have recovered their nerve, with the main equity market indices at or near all-time highs as April came to an end. Once again, Wall Street has proved resilient in the face of short-term investment 'noise'. Which is a lesson for all investors.



Ripple effect widens for China investors

Over the past few years, the relevance of shares quoted on the mainland Chinese stock exchanges to global investors has grown considerably. China has opened access to its share markets via the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock connect schemes.

As we looked at last month, major stock market indices, notably the MSCI Global Emerging Markets Index, have started to include mainland shares, whereas previously China was only represented by companies listed outside the country. As the proportion of mainland shares in the indices rises, so will the weight of money heading towards the Middle Kingdom.

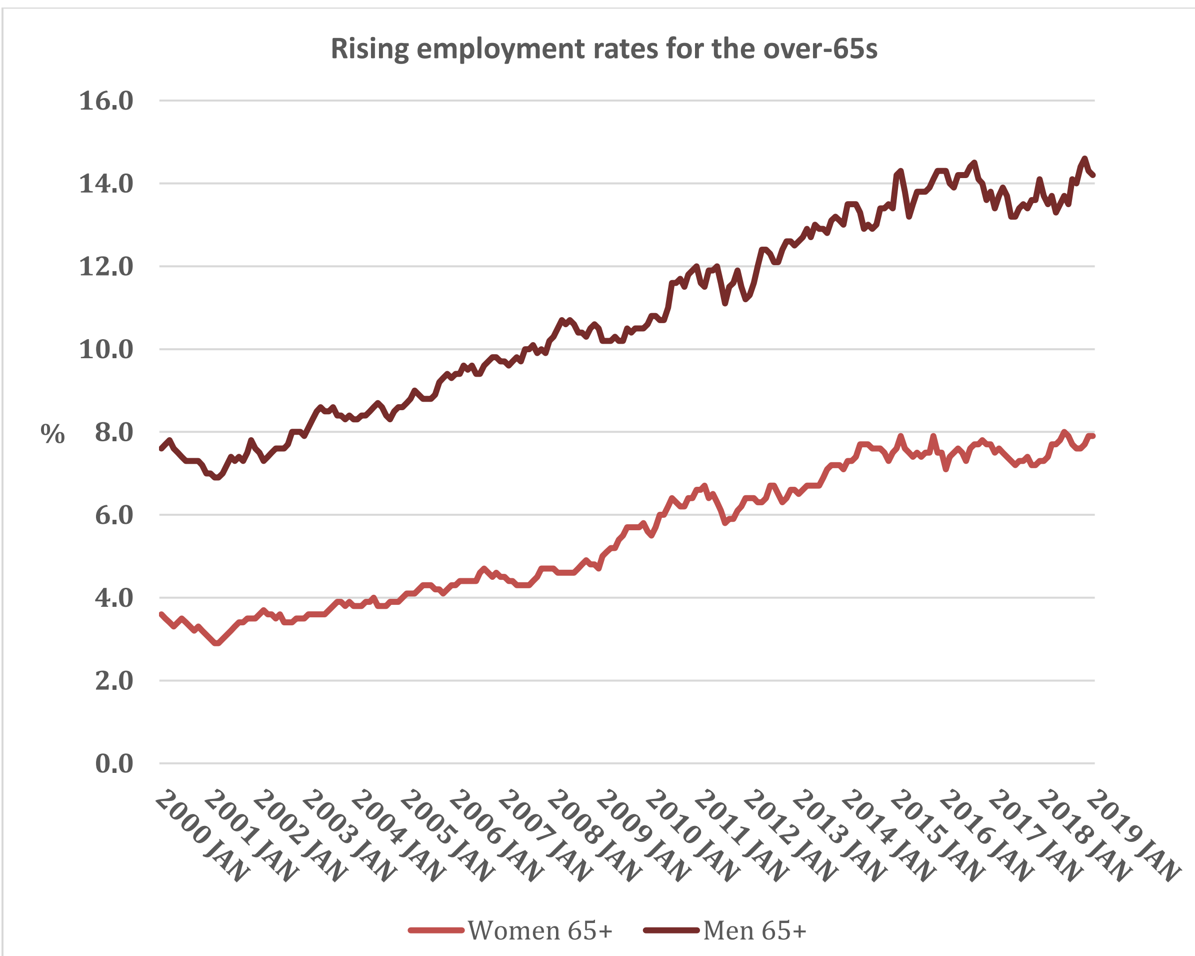
Another major investment sector started to gain a Chinese component from the beginning of April: the fixed interest (bond) market. One of the main, if not the main, global bond indices, the Bloomberg Barclays Global Aggregate Index, began a process of adding mainland Chinese fixed interest securities. By the end of November 2020, the index will have a 6% weighting in Chinese bonds, issued by either the Chinese government or one of the three 'policy banks' it controls. At the end of the process the Chinese currency, the Renminbi (sometimes called the Yuan), will be the fourth largest currency component in the index.

The mainland Chinese bond market is the world's third largest after the US and Japan, at US$13,000bn, about 10 times the size of the offshore Chinese bond market. However, it is thought that at present foreign investors own only about 2% of onshore bonds. One reason for that low holding is that, until recently, it has been difficult for overseas investors to buy mainland bonds. That started to change in 2016 and the arrival in 2017 of Hong Kong Bond Connect (the bond equivalent of the equity market links) prompted a sharp rise in foreign purchases.

The Bloomberg initiative, following on from the recent changes to equity indices made by MSCI, underlines the growing relevance of China to global investment. The world and its investment managers are moving eastwards: you may wish to consider whether your portfolio needs to do the same.

How long do you want to work...?

As people are living longer, a parallel older-age profile is emerging in the labour force.



Source: National Statistics 16 April 2019

Labour market statistics for the period December 2018 to February 2019 revealed some impressive results. In the UK, employment of those aged 16–64 was running at 76.1%, the joint highest level ever and up 0.7% on a year ago.

Drill down into National Statistics numbers and some interesting facts emerge:

- The increases are being driven by more women aged 50–64 in the workforce. At the start of the decade, 58.5% of women aged 50–64 were in employment, whereas the latest figure is 68.1%. Coincidentally in 2000, that was the *male* rate of employment in the 50–64 age band.
- The proportion of men aged 50–64 in work has also risen over the same period, but less dramatically – from 71.4% in 2010 to 76.8% now.
- At 65 and beyond, employment is reaching record levels for both men and women, as the graph shows. Women and men aged 65 and over have an employment rate of 7.9% and 14.2% respectively, compared to 5.5% (women) and 10.8% (men) in January 2010.

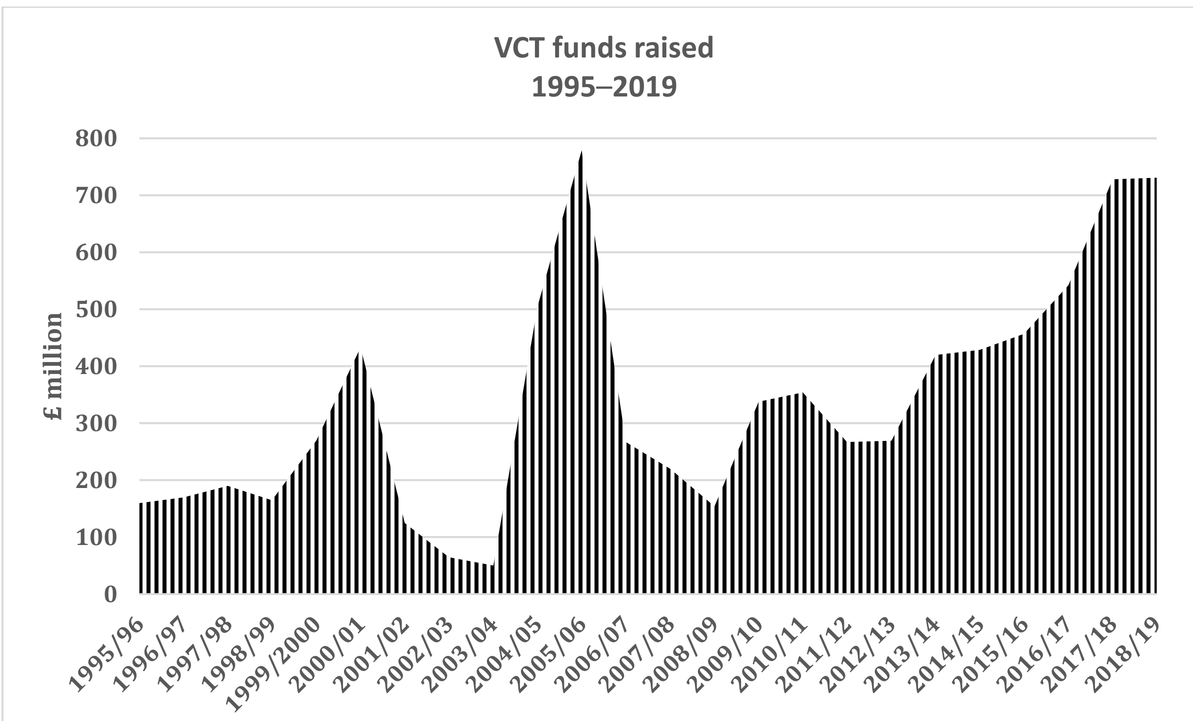
There are several reasons for the increase in employment beyond age 50:

- For women – and now men – the rise of state pension age (SPA) has undoubtedly had an impact. As recently as April 2010, the SPA for a woman was 60. By October next year, both men and women will share a SPA of 66.
- The ending of compulsory retirement ages has encouraged longer working lives.
- The gradual disappearance of final salary pension schemes, particularly in the private sector, has forced some people to revise their retirement plans.
- Economic conditions have played their part. Real (inflation-adjusted) wage growth has been virtually zero over the last 10 years, limiting the scope for retirement savings.

Working for longer can be beneficial to health, although the case is by no means clear cut: continuing work-related stress could be life shortening. The key is to be able to *choose* when to stop work, rather than have the decision forced upon you. To get into that position, there is no substitute for adequate retirement planning – preferably well before the age 50, yet alone 65, is reached.

A popular peak for venture capital trusts

Figures recently released for last tax year show the highest level of VCT investment since 2005/06.



The Association of Investment Companies was quick off the mark after 5 April in announcing a near record level of fund raising for venture capital trusts (VCTs) in 2018/19. At £731m, 2018/19 VCT investment just beat the 2017/18 figure by £3m. The improvement is more impressive than it sounds because in 2017/18 there was a surge of interest ahead of widely anticipated changes to the VCT rules, which subsequently emerged in the autumn 2017 Budget. The best year for VCT capital raising – the sharp spike on the graph – was 2005/06, which was the last year in which income tax relief for investment was at 40%.

The 2018/19 inflow to VCTs is somewhat surprising as those 2017 Budget changes have made fresh investment by VCT managers higher risk than it used to be. The focus is now firmly on young growth companies, which may need a series of capital injections as they expand, rather than a one-off investment. For now, the impact on returns have benefited from established VCTs raising funds for some years and thus have portfolios built up under past, less restrictive VCT investment rules.

These VCTs may still hold investments in management buyouts and long-established companies that required capital for expansion. As those old holdings are liquidated, performance could become more volatile, reflecting the higher risk nature of the more recent acquisitions.

The attraction of VCTs, which must be set against those risks, is tax relief:

- 30% income tax relief (given as a credit) is available on up to £200,000 of investment per tax year;
- dividends are free of income tax; and
- any gains are free of tax, although income tax is clawed back on disposals within the first five years.

If your opportunity to invest in pensions is limited by the annual and/or lifetime allowances, that 30% up front tax relief has an obvious attraction.

Although the end of tax year VCT season is over, there are a range of VCTs seeking to raise funds early in the new tax year. Please contact us to discuss your options.

Doctors tapering off as pension tax rules bite

Measures designed to limit the cost of pensions tax relief to the Treasury are having some unwelcome consequences, as some senior doctors have found their incomes disappearing.

Some members of the medical profession have found changes to legislation mean their earnings are getting swallowed up by the tax system. According to a recent *Financial Times* report some NHS consultants are being landed with tax bills of up to £87,000, prompting them to reduce working hours or even take early retirement.

The doctors' problems primarily stem from the implementation of the pension annual allowance tapering rules. These have two key trigger points:

1. 'Threshold income' (broadly speaking total income from *all* sources, less personal pension contributions) exceeding £110,000; and
2. 'Adjusted income' (broadly total income from *all* sources plus employer pension contributions) exceeding £150,000.

If both levels are crossed, then the standard annual allowance for pension contributions of £40,000 is reduced by £1 for each £2 by which 'adjusted income' exceeds £150,000, subject to a minimum annual allowance of £10,000. The all-or-nothing nature of the triggers can mean that just an extra £1 of earnings brings the taper rules into play. That additional £1 could therefore result in an additional tax bill of much more than £1.

To complicate matters further, £110,000 sits almost in the middle of the band of income between £100,000 and £125,000 at which the personal allowance is tapered away, creating an effective marginal tax rate of up to 60% (61.5% in Scotland). Added to that will usually be 2% national insurance contributions.

The *Financial Times* article said that many doctors had been 'surprised' by their pension tax bills. This implies they had not sought personal financial advice on how the pension taper rules, introduced from April 2016, would affect them.

There are ongoing discussions between the Treasury and the Department for Health and Social Care about the issue, but it seems highly unlikely the former will forgo the revenue generated by the annual allowance rules (over £560m in 2016/17). In the meantime, the episode serves as a reminder of the importance of regular financial reviews to avoid – or at least be aware of – the growing range of tax traps in the UK's labyrinthine tax legislation.

individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax or trust advice.