November 2023

NUGENIS NEWS

PEOPLE NEWS

10-year work anniversary

In October one of our paraplanners, Deborah Watkins, marked 10 years of service with the company.

To celebrate, all of the staff surprised her with a video call (after a subtle reminder to Debs not to forget to dial in!) to pass on our congratulations and best wishes.

Congratulations on your special anniversary Debs. We hope you liked your gifts, and here’s to the next 10 years!

OTHER NEWS

Bordier Webinars

We recently held a series of client webinars with our investment partners, Bordier UK, and based on the positive feedback received to date will be looking to host additional events in 2024.

If you weren’t able to attend and are interested in what was discussed, or you would like to attend future events, please speak to your usual Financial Planner.

Investment Commentary

November 2023

Market overview

October was a weak month for both equities and bonds as the market's 'higher-for-longer' expectation around interest rates rolled over from September. Developed market equities fell nearly 3% in local currency terms while global bonds fell slightly over 1%. While the tragic events in the Middle East have not materially affected markets to date, the added level of geopolitical uncertainty did serve to further dampen market sentiment.

Stronger than expected economic data, particularly in the US, led to the view that a reversal in rate policy might be further away than hoped. Economic growth in the US has picked up significantly in Q3, while both the latest retail sales and employment data surprised on the upside.

The economic outlook in the UK continues to look challenging. Recent retail sales numbers have disappointed, and other indicators point to a slowdown in activity and declining sentiment. Despite this, inflationary pressures, particularly in the services sector, remain more acute than in most other key regions, and the Bank of England's task of bringing inflation down without damaging already fragile economic growth remains a very difficult one looking ahead.

Emerging market equities also suffered in what was very much a 'risk-off' month, declining nearly 4%. This was despite the fact that newsflow on the Chinese economy was largely positive, with some encouraging consumer data in particular.

The benchmark 10-year Treasury bond yield rose above 5%, a level not seen for over 15 years, and sovereign bond yields in several other countries reached multi-year highs. Credit spreads also widened leading to both investment grade and high yield bonds underperforming.

Strategy Positioning

Markets continue to look for more clarity in the outlook for interest rates and the global economy. While data remains mixed we are positioned for our central view that inflation in developed regions will revert to close to central bank target levels by the end of next year. We expect to see global growth of between 2% and 3% per annum over the next three years, a supportive level for risk assets, accompanied by a recovery in corporate earnings.

This thesis leads us to favour equities as an asset class. We continue to actively manage our equity exposure and, where appropriate for the strategy, we are targeting companies most likely to benefit from advances in artificial intelligence ('AI') via a specialist active manager. This addition to portfolios will complement our existing 'thematic' exposure to global infrastructure and sustainable energy.

With inflationary pressures easing, and the likelihood that interest rates either have or are close to peaking, we also see attractive investment opportunities in fixed income. As a result we are adding further to investment grade credit exposure in portfolios, funded from a slight reduction in our more defensive alternative funds.We are, however, retaining some exposure to alternatives - the challenging environment for both equities and bonds recently has again showed the value of holding these funds, all of which have posted positive returns over the last couple of months.

Being financially responsible this Christmas

With the countdown to Christmas about to begin, now is a good time to think about how you can make the most of the festive season, without giving yourself a financial headache in the New Year.

Christmas has long been a time of excess, but the last few years of global upheaval and crisis have made many of us feel like now, more than ever, we need to embrace the festive fun. However, with rising prices and inflation not expected to fall to the Bank of England's target of 2% until 2025, as well as a continued uncertain economic outlook, it's worth remembering that having a great Christmas, doesn't mean you have to completely blow the budget. Taking a step back and planning your spending over the festive period will help you enjoy the festivities without worrying about your long-term finances.

Setting a budget

There are a lot of demands on our cash as we move through November and into December. Meeting up with friends and family, Christmas parties and general socialising can all add up. Thinking about where you meet and setting a budget for food, drink and any other purchases before you go can help keep a lid on some of these costs.

It's also easy to get into a habit of swapping gifts with lots of different people over time. Now is a good opportunity to think about whether you want to continue doing that, or perhaps limit the numbers a little. Have a conversation with friends and family about gifts - you might find they are keen to reduce the number of presents they buy too.

If you don't want to completely stop buying gifts for a particular group, perhaps arrange a 'secret Santa' instead, where you each give and receive one present, rather than everyone giving everyone something. This could mean you spend slightly more per person, but less overall, or you could add an extra element of fun by agreeing on a small budget and getting creative with gift ideas.

Consider Financial Gifts

Christmas is a particularly exciting time for children and we're all familiar with the pressure of trying to fulfil their wish lists. Often the reality is that the toys and gadgets that they absolutely have to have can also be quickly abandoned as they move on to wanting the next thing.

A way to get around the material madness is with a financial gift. Cash is generally well received and encouraging them to save some of it can get children into good habits for the future. Or something longer term, like a contribution to a Junior ISA or even a pension, can be a good way to set the children in your life on the path towards financial security. Plus, there is the added benefit that any gift you give may potentially reduce the value of your estate for Inheritance Tax (IHT) purposes.

Helping young people save for the future is arguably more important than ever. The rising cost of tuition fees is leaving students with money to repay when they start earning enough, while property prices and rising mortgage costs are making it increasingly difficult for young people to find affordable rental accommodation, let alone get a foot on the property ladder without some kind of financial assistance. According to the Mortgage Advice Bureau[1], the 'bank of Mum and Dad' is now the ninth biggest mortgage lender in the UK.

If you're thinking about giving money for the future, here are some options to consider.

Individual Savings Accounts (ISAs)

ISAs can be an attractive option to invest in for the future. Any investment gains are fully sheltered from capital gains tax, and any dividends or interest payments you receive are free from income tax.

When you're investing for children/grandchildren you have a couple of options:

- Junior ISAs are a great way of putting away some money in their name and they can't access it until they turn 18. The current maximum limit is £9,000 each tax year and you can manage the investments on their behalf. It needs to be set up by the child's parent or legal guardian, but then anyone can pay into it – you don't have to be a family member.

- Alternatively, if you haven't contributed the maximum annual amount of £20,000 to your own ISA you could put money into it which you can think of as assigned to the child. There's no formal obligation to give the money to the child, but it offers a way for you to keep control over when the money is passed on and how it is spent. For instance, you might want the money to go towards university fees or a housing deposit, whereas at 18 the child may want to spend the money on holidays and having fun. Remember, however, that any gifts from your own ISA could be subject to IHT if you die within seven years.

Trusts

Another way to keep control of the money you put aside for a child's long-term future is through a trust. This is an estate planning tool which helps you to allocate assets for any intended beneficiaries.

There are different types of trusts with different solutions and purposes. A trust can ring-fence money for a child or grandchild until they reach adulthood. Whichever one you choose, you pay money into an investment plan within the trust, and name trustees (usually yourself and at least one other person) who will be managing and distributing the assets to the beneficiaries.

The rules around payment of Income Tax, Capital Gains Tax and IHT can vary depending on the type of trust and the circumstances, so it's important to speak to your Financial Planner first if you're interested in setting one up for your descendants.

Pensions

It may seem strange to consider saving for a child's retirement, but it's a great way to get a head start on providing for their future financial security and there are significant tax benefits to be had.

You can pay up to £2,880 into a child's pension for the 2023/24 tax year (or, if applicable, up to 100% of the child's earnings). Then the government will add 20% tax relief meaning £3,600 can be contributed per year (if the child pays tax on earnings, tax relief would be applied at their usual tax rate). In addition, any growth and dividend or interest payments are free from Capital Gains Tax and Income Tax.

This can add up over time. For example, if you invest the maximum over just three years of £8,640 (£10,800 including the government top-up), assuming an average compound growth rate of 5% per annum (after charges) over 50 years your child's pension could be worth around £125,000. If the the average return was 8% per annum the fund could in excess of £500,000 [2].

As this is a very long-term investment, it might be worth considering a higher risk that you would for your own investments – speak to your Financial Planner about the right investment approach. The other thing to bear in mind is that while the current age to access pension funds is 55 this is already scheduled to increase to age 57 from April 2028, and could possibly continue to increase as the State Pension age increases. You therefore need to be sure that you're happy for the funds to be locked up until your child retires.

Next Steps

Christmas is a wonderful time of the year, but you don't want to be left with a financial hangover once the festivities are over. Plan your spending to stay on track and please get in touch if you'd like to find out more about setting up a financial gift, that will help set your loved ones up for long-term security.

[1] https://www.mortgageadvicebureau.com/getting-a-mortgage/the-bank-of-mum-and-dad-is-9th-biggest-lender/

[2] Figures reflect nominal values based on calculations by Nugenis Financial Planning Limited, assuming a 5% per annum increase net of all costs and charges allocated monthly, and no other deductions.

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