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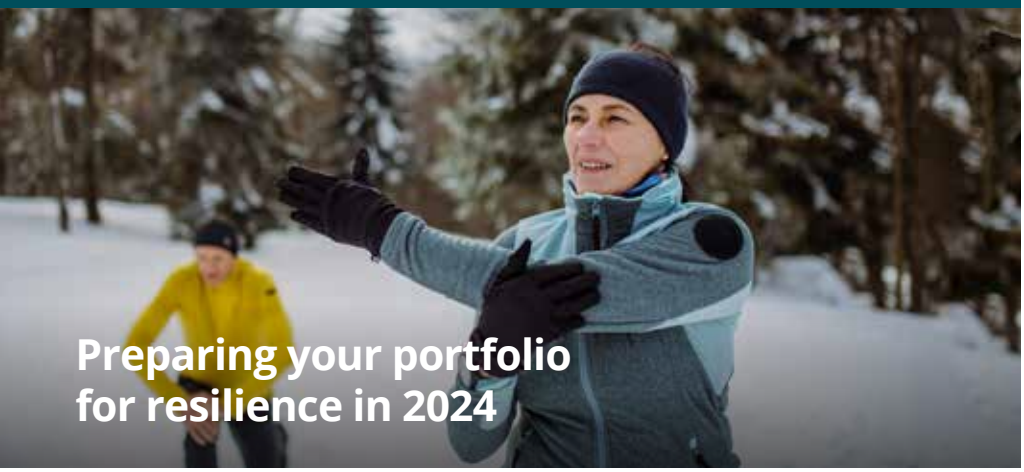
Your **Wealth** Winter Q1 2024



Preparing your portfolio for resilience in 2024

The past few years have been challenging for investors with a series of unforeseen events and rising geopolitical tensions weighing heavily on global markets and, as a new year dawns, many issues remain unresolved. However, while such times are disconcerting for investors, the best way to achieve financial empowerment is by sticking to a sound strategic plan that optimises investment decisions and thereby tackles any potential issues head on.

Geopolitical risk

Although it may sometimes feel we are living through unprecedented times, geopolitical risk is not a new phenomenon – it has always been a feature of the investment landscape. Russia's invasion of Ukraine and, more recently, the Middle East conflict, however, are both clearly major events most people did not foresee. And, when such events do occur, even the most well-informed investors find it difficult to accurately predict their impact on markets and investment portfolios.

Economic prospects

The global economy is currently in a relatively precarious position with the long-term consequences of the pandemic, war in Ukraine and the Middle East, and increasing geoeconomic fragmentation hindering prospects. The International Monetary Fund's assessment, for example, produced just before October's Middle East conflict erupted, points to an easing of growth across advanced economies this year, while China looks set to experience its slowest growth rate for years.

Investment pragmatism

While geopolitical events need to be closely monitored, investors must also be disciplined with any changes to investment strategy based on hard facts rather than knee-jerk reactions to the latest news headlines. The key to successful investing is undoubtedly to focus on long-term objectives and mitigate any potential risks by maintaining a well-diversified portfolio spread across different asset classes, industries and geographical regions.

New year, new opportunities

While geopolitical tensions are expected to present ongoing challenges, as 2024 unfolds new investment opportunities will inevitably become available. We'll be on hand throughout the year to help you make the most of any opportunities, by carefully repositioning your portfolio and ensuring it remains firmly aligned with your financial objectives.

Global dividend update

A new study[1] analysing global dividend trends has highlighted that, in the third quarter of last year, 89% of companies chose to maintain their dividend levels or raise them. Despite this, it was noted that during the quarter, global dividends reduced by 0.9% (on a headline basis) to total $421.9bn.

The underlying growth of dividends, paid by the world's 1,200 largest firms measured by market capitalisation, was recorded at 0.3% in Q3 2023; this follows adjustments for the strengthening US dollar and for special dividends. Interestingly, the overall growth rate was *'significantly impacted'* by a diminutive number of large dividend cuts; the report noted that this *'masked encouraging growth across the wider market.'* If you exclude the two largest dividend reductions, for example, underlying growth was 5.3%.

From a year-on-year perspective, the 2023 headline forecast has been reduced from $1.64trn to $1.63trn, also reflective of reduced special dividends and a stronger US dollar, and *'not a cause for concern,'* according to the report. Head of Global Equity Income at Janus Henderson, Ben Lofthouse, signalled that, *"dividend growth from companies generally remains strong across a wide range of sectors and regions,"* adding that the data highlights *"a globally diversified income portfolio has natural stabilisers,"* as sectors in ascendance are *"able to counteract those with declining dividends,"* before concluding, *"Dividends are typically much less volatile than earnings over time, providing comfort in times of economic uncertainty."*

[1]Janus Henderson, 2023

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'110 measures' to grow the economy

With the Office for Budget Responsibility (OBR) predicting modest UK economic growth of 0.7% this year and 1.4% in 2025, during the Autumn Statement Chancellor Jeremy Hunt outlined 110 growth measures intended to get more people into work, cut business taxes and raise business investment, to get the economy *"back on track."*

Contrary to speculation before the fiscal event, reforms to Inheritance Tax (IHT) or Individual Savings Accounts (ISAs) allowances were not announced, although some changes are proposed, including the ability for people to pay into multiple ISAs of the same type each tax year and permitting partial transfers of ISA funds between providers, from April 2024.

As a reminder:

- Inheritance Tax bands remain at £325,000 nil-rate band, £175,000 residence nil-rate band, with taper starting at £2m – fixed at these levels until April 2028
- The 2024/25 tax year ISA allowance remains at £20,000 and the JISA (Junior Individual Savings Account) allowance remains at £9,000.

Key business and personal taxation measures

A key business related measure was making the full expensing tax break for businesses permanent, while the headline personal taxation measure was the reduction in the main rate of Class 1 employee National Insurance contributions (NICs) from 12% to 10%. Providing a tax cut for 27 million working people, instead of taking effect on 6 April 2024, this took effect from 6 January 2024. The self-employed also benefited with Class 2 NICs paid by those earning more than £12,570 being abolished from April and Class 4 NICs paid on profits between £12,570 and £50,270, to be cut by one percentage point to 8% from April 2024.

Triple Lock honoured

The government's commitment to the pensions Triple Lock was honoured, meaning that the basic State Pension, new State Pension and Pension Credit standard minimum guarantee will be uprated in April 2024 in line with average earnings growth of 8.5% (September 2023). The value of the new State Pension will increase in April 2024 from £203.85 per week to £221.20 per week, while the basic State Pension will rise from £156.20 to £169.50 per week.

Also on the pension front, the latest steps to deliver the Mansion House Reforms include a call for evidence on allowing individuals to consolidate pensions by having one pension pot for life.

The Lifetime Allowance (LTA) is still scheduled to be abolished from April 2024.

More good news...

A further growth measure addressed the future of Venture Capital Trusts (VCTs) and Enterprise Investment Scheme (EISs). The measure extended the operation of the EIS and VCT schemes from April 2025 to April 2035, continuing the availability of Income Tax and Capital Gains Tax reliefs for investors in qualifying companies and VCTs.

IN THE News

Who wants to be an (ISA) millionaire?

The number of ISA millionaires – i.e. people who have built up a tax-free pot of £1m or more by investing in stocks and shares ISAs – has almost quintupled since 2017, with the figure now standing at 2,760[2]. With the first ISAs introduced in 1999 aimed at encouraging more people to save, the data certainly suggests the objective is being satisfied for an increasing number, with the most recent data suggesting around 11.8 million adults were subscribed to an ISA in 2021/22, making £66.9bn deposits in that tax year.

More people choose living inheritances

There has been an increase in the number of people who are choosing to gift significant sums of money to beneficiaries whilst they are still alive – otherwise known as a *'living inheritance.'* One in 10 respondents to the Great British Retirement Survey 2023[3] said they had given a living inheritance in the past three years. This increased to 15% amongst over-65s.

One million more over-65s still at work

There are now nearly a million more people over the age of 65 in the UK labour market compared with the number still at work in the year 2000[4]. This is according to the Centre for Ageing Better, which has calculated that 976,000 workers over the age of 65 and 3.1 million aged 50-64 have been added to the workforce since the Millennium. It is thought that the UK's ageing population, in addition to changes in the State Pension age, are mostly responsible for the increasing numbers of older workers in the UK's labour force over the past few decades.

[2]HMRC, 2023, [3]Interactive Investor, 2023, [4]Centre for Ageing Better, 2023

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Financial pitfalls primarily impacting women

Research[5] has shone a spotlight on the financial challenges that prevent women from accumulating the same wealth as their male counterparts.

The report found that having children continues to have a disproportionately large impact on women's finances, as do other life events such as the menopause.

The findings

Amongst the report's findings were the following statistics:

- A quarter of women continue paying into their pension at the same rate during parental leave, vs 70% of men
- Caring responsibilities (outside of childcare) have financially impacted nearly half of women
- One in 20 menopausal women have quit work due to their symptoms
- Only 55% of women return to work full time after their first child, compared to 90% of men.

Of course, no two women are the same and each will face different challenges on her journey to financial wellbeing. However, these statistics show that there are common threads here. Women continue to take the lion's share of caring responsibilities, taking them out of the workplace and reducing their financial security not only in the present, but as they approach retirement as well.

Let's do something about it – together

Despite the financial challenges women face, they remain less likely than men to seek professional financial advice[6]. As we move into 2024, make a New Year's resolution – let this be the year that you empower yourself to succeed and get your finances on track for a prosperous future.

[5]AJ Bell, 2023, [6]Canada Life, 2022

Powering up your pension this year

Paying a lump sum into a pension can be a particularly effective way to save for your future. If you have accumulated extra money from a windfall, work bonus or through saving, now could be the ideal time to power up your pension with a single contribution.

Above and beyond

One-off pension payments are permitted at any time, with the government encouraging people to do so through tax incentives. Making a single contribution basically enables people to go above and beyond their regular commitments, and thereby move closer to achieving their ultimate pension saving goals.

Tax efficiency

Tax relief is available on contributions up to a maximum of £3,600 a year or 100% of earnings, whichever is greater, with the level of relief dependent on a person's marginal rate of Income Tax. For instance, a £1,000 lump sum contribution could effectively cost a higher rate taxpayer just £600, after receiving £200 basic rate tax relief from the government and claiming £200 in additional relief from HMRC.

Allowances

For 2023/24, the annual contribution limit for tax relief purposes is 100% of a person's salary or £60,000, whichever is lower, although unused allowance from the previous three tax years can be carried forward. If you want to make the most of your available allowance(s), get in touch and we'll help you power up your pension.

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The value of advice: much more than the bottom line

The true value of financial advice clearly goes well beyond simply maximising the monetary value of a client's portfolio. As we progress through life's journey, the major events that confront us all certainly come with financial costs. However, they also generate an array of emotions and feelings, and the provision of advice has a critical role to perform in this area too.

Building a portfolio

Analysis[7] suggests the value of advice can be broken down into four pillars: portfolio, financial, time and emotional. Firstly, by working with an adviser, clients are able to construct, and rebalance when necessary, a well-diversified, tailored portfolio of investments that match their risk tolerance and enable them to achieve their life goals.

Financial and time value

Financial value essentially revolves around planning for expected and unexpected events, with help provided in a range of areas, including saving and spending strategies, legacy and estate planning, and tax efficiency. Time is clearly one of our most valuable resources and, by securing the services of an adviser, clients are able to devote more time to the things they actually enjoy doing.

Peace of mind

The final pillar, emotional value, focuses on financial peace of mind. This aspect of advice is often highlighted in research studies, with one survey[7] suggesting three times as many investors report having peace of mind because of their adviser. In essence, the advice process allows clients to feel at ease and promotes confidence in the outlook for their financial future.

[7]Vanguard, 2022 and 2023

What's your retirement dream?

Research[8] has revealed that the ultimate retirement dream is actually very simple – financial security for the rest of your life.

This is according to a survey[8], which questioned 2,000 respondents aged 50 and over on their aspirations for later life.

Hopes and dreams

Nearly all the respondents to the survey (94%) said that financial security was one of their biggest retirement wishes. Other retirement aspirations included:

- Being able to maintain one's desired lifestyle (94%)
- Spending time with family (90%)
- Being able to afford care if required (81%)
- Being able to afford big family events, such as weddings (73%)
- Travelling (72%)
- Being able to support family financially (69%).

However, 41% of retired respondents admitted that they've ended up needing more money than anticipated.

Avoiding the shortfall

Due to rising life expectancies, many people can expect to spend several decades in retirement. You therefore need to give careful consideration to the below:

How much do you need? – what level of income will you need for your preferred lifestyle?

What do you have? – let's take stock of your pension(s), savings and investments, and any other assets you currently have.

When do you want to retire? - this will give you an idea of how long you have to save before entering retirement.

Think about tax – there are serious benefits to properly utilising the tax allowances available to you.

Take advice – research[9] has revealed that people who take financial advice can expect to retire three years earlier on average. Advised consumers also believe they can fund their desired lifestyle for six years longer than their non-advised counterparts.

Achieve the dream in 2024

Make 2024 the year you make your retirement dreams come true. We can help you work towards enjoying the retirement you've always dreamed of.

[8]Legal & General, 2023, [9]Standard Life, 2023

If you would like any advice or information on any of the areas highlighted in this newsletter, please **get in touch**

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