BONUM WEALTH
CHARTERED FINANCIAL PLANNERS

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What could this election year have in store for investors?

If elections have consequences, as Barack Obama said, then 2024 looks like being a highly consequential year. Some 64 countries are due to hold elections this year (including the US, India, Brazil, Russia and very probably the UK), representing over half of the global population and, in economic terms, half of the world's gross domestic product (GDP).

Depending on the outcomes, some of these elections carry significant global implications, influencing not only the geopolitical landscape but also impacting global and regional investment markets. So, how could this year's elections affect the investment landscape and, by extension, your portfolio?

What are the investment implications?
Election years are typically marked by increased uncertainty and speculation because there's nothing that markets hate more than uncertainty. A change in a country's leadership or policy direction can affect everything from its stock market to commodity prices, influencing investor sentiment worldwide.

From a UK perspective, elections in countries such as India, Brazil, and even the European Union, could have wide-reaching implications, and the results will be important in terms of supply chains, access to commodities and trade policies. With 70% of revenues earned by FTSE 100 listed companies derived overseas, domestic shareholders will be keeping a close eye on global election results. It's impossible to talk about elections in 2024 without discussing the elephant in the room - the US.

A rematch?
As the world's largest economy, the US sets the tone for global economic policies regarding trade, regulation, and fiscal stimulus. Democratic presidents are usually better for the US economy, and for investment returns in general, but given his low approval rating, the re-election of President Joe Biden is far from certain. The race is unlikely to be a straight line, and an election victory for Trump, despite numerous legal issues, could cause ripples worldwide as investors work out the likely implications for the US and indeed the rest of the world.

What should investors be thinking about?
Uncertainty about election outcomes and the potential for policy changes often lead to short-term fluctuations in asset prices. And while keeping an eye on political developments is important, there's no reason to be overly concerned about how an election year could affect your investment over the longer term. It's important not to be distracted by short-term 'noise.' The best way to prepare for potential market volatility is to have a well-diversified investment portfolio that is aligned with your long-term financial objectives and managed to meet your personal financial goals.

Investor confidence returns

Increased investor confidence in equity funds over the last few months has been evidenced by a leading Index[1], with UK investors at their most bullish in almost three years.

Equity fund inflows reached £2.01bn in January, one of the top ten months on record and the highest since April 2021. In addition, the January Index reported:

- US equity funds had record inflows of £1.04bn
- European equity funds had their third best month on record with an inflow of £471m
- Weak news from China meant outflows from Asia Pacific funds for a ninth consecutive month
- ESG funds had record inflows of £1.63bn. It's likely to be too soon to identify this as a trend after months of negativity
- Inflows to safe-haven money market funds slowed to a trickle (£56m) after months of strong buying.

[1]Calastone, 2024

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INSIDE THIS ISSUE:

UK M&A activity drops nearly a fifth in 2023

UK M&A activity in 2023 fell below 2022 levels as economic headwinds continued to affect the number of deals completed in the year, according to PwC's latest Global M&A Trends 2024 Outlook. In total, the UK saw 3,628 deals across 2023, compared to 4,362 the previous year, a 17% decline. The Technology, Media and Telecommunications (TMT) sector saw the most activity for 2023 (955 deals), accounting for just over a quarter of total output for the year.

Gen X impacted by emotional trading

A survey[2] delving into the trading psychology of new traders has revealed that the demographic most likely to have their trading decisions consistently influenced by emotions were 41 to 60-year-olds (Gen X). Over a third (35.4%) of the Gen X group considered emotions to be a significant factor in their trading approach, which compares to 10.1% of the 18 to 24-year-olds surveyed.

BRICS gets a boost

BRICS, the alliance of major developing countries, gained five new members this year – Saudi Arabia, Egypt, Ethiopia, Iran, and the United Arab Emirates (UAE). The population of the expanded group is around 3.5bn or 45% of the world's inhabitants. The combined members' economies are worth over $28.5tn, about 28% of the global economy. Originally coined as an asset class in 2001, the original members Brazil, Russia, India and China (BRIC), were later joined by South Africa in 2010 to become the BRICS acronym we know today. Following the Russian invasion of Ukraine, many BRICS indexes dropped Russia from their portfolios.

[2]City Index, 2024

A plan to grow the economy

With the Office for Budget Responsibility (OBR) predicting the UK economy will expand by 0.8% this year, and by 1.9% in 2025, Jeremy Hunt delivered his last Spring Budget ahead of the General Election, highlighting reforms aimed to ensure the tax system is simple, fair, keeps pace with economic developments, and supports public finances.

Expectations are that the rate of inflation will fall below the Bank of England's 2% target level in *"a few months' time,"* with the OBR forecast showing the government is on track to meet its fiscal rules to grow the economy, reduce debt and halve inflation.

Changes to National Insurance contributions (NICs)

In line with speculation, following reductions to NICs announced during the Autumn Statement, the Chancellor announced further changes, specifically a reduction in the main rate of employee NICs by2p in the pound from 10% to 8%, and a further 2p cut from the main rate of self-employed NICs, meaning the main rate of Class 4 NICs for the self-employed will reduce from 9% to 6%.

UK savings in focus

In order to promote more investment in UK assets, the government announced the introduction of a UK Individual Savings Account (ISA) with a £5,000 annual allowance in addition to the existing ISA allowance of £20,000. It will be a new tax-free savings product for people to invest in UK-focused assets (a consultation regarding implementation will be running to 6 June 2024). And a British Savings Bond will be delivered through National Savings & Investments (NS&I) in April 2024, offering a guaranteed interest rate, fixed for three years.

The 2024/25 tax year JISA (Junior Individual Savings Account) allowance remains at £9,000.

IHT consultation

It was announced that there will be a consultation on moving to a residence-based regime for Inheritance Tax (IHT). No changes to IHT will take effect before 6 April 2025, nil-rate band remains at £325,000 and the main residence nil-rate band at £175,000, with taper starting at £2m (estate value). From 1 April 2024, personal representatives of estates will no longer need to take out commercial loans to pay IHT before applying to obtain a grant on credit from HMRC.

Reviewing non-dom status and Child Benefit

In addition, it was announced that the non-dom status will be replaced by a new residence-based system from 6 April 2025. The government also announced an intention to move to a residence-based regime for IHT, with plans to publish a policy consultation on these changes, followed by draft legislation for a technical legislation, later in the year.

Changes to the Child Benefit system included an increase to the threshold for the High Income Child Benefit Charge to £60,000 in April. The rate of the charge will be halved, so that Child Benefit is not lost in full until an individual earns £80,000 per annum, and by April 2026, the Child Benefit system will be based on household rather than individual incomes.

And pensions...

The government remain committed to the pensions Triple Lock. The value of the new State Pension will increase to £221.20 per week in April, while the basic State Pension increased to £169.50 per week.

IHT receipts at record levels

Figures released by HM Revenue & Customs (HMRC) show that IHT receipts have hit record levels while new data shows the taxman is hunting down thousands of families that have not paid the correct liability on inherited estates.

Record sums

In the first ten months of the 2023/24 financial year, HMRC collected £6.3bn in death duty receipts, £0.4bn more than during the same period of the previous fiscal year. This represents a 7% rise and suggests this year's annual figure will comfortably surpass last year's record-breaking total of £7.1bn.

Frozen thresholds

The increase continues an upward trajectory that has been evident in recent years, largely as a result of the nil-rate threshold being frozen at £325,000 for over a decade. This, combined with growth in property prices, has effectively dragged more households into the IHT net.

Investigations rising

Recent years have also seen record amounts of underpaid tax clawed back by HMRC through a specialist team targeting the estates of wealthy deceased individuals. Data obtained via a Freedom of Information request shows a total of 2,029 IHT investigations were opened between April and November 2023, with £172m recovered over that period as a result of targeted investigations.

IHT concerns

New research[3] also suggests IHT is the number one financial concern among wealthy individuals. In total, the survey found that more than a third of wealthy Brits are worried about IHT, with notable increases in levels of concern reported across both the 25 to 34 and 55 to 65-year-old categories over the past year.

Complex rules

The rules surrounding IHT are notoriously complex and people therefore often require professional advice in order to find the most efficient solution for their personal circumstances. If you have any concerns or need advice in this area do get in touch; we're always here to help.

[3]RBC, 2024

Reaching self-actualisation in retirement

To enjoy a financially secure retirement, it's important to spend time doing some in-depth thinking well in advance to determine your goals and requirements in order to achieve the lifestyle you dream of. You need a robust financial plan.

When thinking about the income you'll need in retirement, many people find it helpful to think in terms of Maslow's renowned Hierarchy of Needs. His pyramid has various levels of need that human motivations move through, starting with the physical requirements for human survival, and ending with mankind's highest aspirations, reaching 'self-actualisation' at the apex of the pyramid. Adapting this approach to personal finance was pioneered in the US. Using this hierarchical approach in a personal finance context can be a useful tool in deciding how to plan your income in retirement.

Survival income – This is the base of the pyramid and consists of the income you need to pay all your basic household expenses, your regular bills and running costs.

Safety income – The next layer up, this is the amount you might need to meet life's unexpected events, such as health and later-life care costs, loss of income and any emergency financial help you might want to give your family.

Freedom income – This layer is all about assessing the likely cost of doing all those things that you never had time to do before you retired, including travel expenses, major purchases or indulging yourself in other ways.

Self-actualisation

Many people add a gift layer representing money they want to pass on to children and grandchildren during their lifetime, and some add a dream layer, their ultimate 'bucket list,' to the very top. The apex of 'self-actualisation' represents the ultimate in reaching your full potential, being self-fulfilled and enjoying peak experiences. Maslow described this level as the desire to accomplish everything that one can, and *"to become everything one is capable of becoming."*

By viewing your retirement finances in this way, you can gain a clear picture of how much money you'll need to help you enjoy the retirement you've always wanted. We can build a clear and comprehensive strategy.

Transfer window

Recently published research suggests the long-heralded 'great wealth transfer' is now firmly underway, which inevitably heightens the need for carefully considered intergenerational financial planning as assets continue to flow down the generations.

The great transfer
Dubbed by analysts the 'great wealth transfer,' the next two decades are set to witness the largest ever intergenerational transfer of wealth as baby boomers and Gen X pass on assets to their heirs.

Gaining momentum
A recent survey[4] shows this transfer starting to gather momentum, with 2023 the first ever year in which billionaires amassed more wealth through inheritance than entrepreneurship. This trend is expected to continue in the coming years, with predictions millennials' wealth will increase five-fold across the current decade, with significant levels of wealth passing to Gen Z too, according to research[5].

Continuing family legacies
As the great wealth transfer progresses, each generation will clearly have their own views on legacy. The research did, however, find strong support for continuing current family legacies, with 60% of heirs planning for future generations to benefit from their wealth.

Careful planning
In addition, heirs were found to be conscious of the need to reshape and reposition their wealth in order to continue the family legacy, while they also appear to be taking a more holistic approach to the role accumulation of wealth plays in their lives. All of this suggests careful planning will be required if families are to successfully transfer wealth in a way that makes fair provision for all generations.

[4]UBS Billionaire Ambitions Report, 2023,
[5]Coldwell Banker, 2019

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Where next for the global economy?

While the latest forecast released by the International Monetary Fund (IMF) does suggest global growth is likely to remain below its long-term historic average, the update did strike a relatively optimistic note with the organisation's Chief Economist saying a global *"soft landing"* was in sight.

Global growth upgraded
In its first assessment of world economic prospects published this year, the IMF edged up its forecast for global economic growth with the improvement largely driven by inflation easing more quickly than previously anticipated. The international soothsayer said it now expects the world economy to grow by 3.1% over the course of 2024, up two-tenths of a percentage point from its previous forecast last autumn.

Evenly balanced risks
The IMF also noted that risks to growth prospects are now broadly balanced, with faster disinflation and looser than necessary fiscal policy during *'the biggest global election year in history'* both cited as potential upside factors that could boost growth. On the downside, new commodity price spikes due to geopolitical tensions in the Middle East and continued attacks in the Red Sea could result in more persistent underlying inflation and thereby prolong tight monetary conditions, while deepening property sector woes in China could also lead to growth disappointments.

Remarkable resilience
Overall, however, the IMF suggested the likelihood of a *'hard landing'* had receded. Indeed, the organisation's Chief Economist, Pierre-Olivier Gourinchas, noted that the global economy *"continues to display remarkable resilience, with inflation declining steadily and growth holding up."* He concluded, *"We are very far from a global recession scenario."*

Investment fundamentals
An improving economic outlook should certainly provide opportunities for investors this year, although the key to successful investing will undoubtedly remain the adoption of a carefully considered strategy based on sound financial planning principles.

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All details are correct at time of writing – March 2024.

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