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Thanks for reading our newsletter. If you want to discuss any of the articles in more detail, please get in touch.

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2021 Outlook
The healing process

Following a particularly challenging year for investing, we've identified five themes we'll be watching closely throughout 2021.

The coronavirus pandemic made conditions particularly challenging for investors throughout 2020. After a year when everything seemed to change, what's likely to drive the global economy and financial markets in 2021?

These are the five themes we believe will influence our investment decisions the most as we navigate the evolving environment..

1. The world economy is in recovery mode.

We believe the pandemic will recede this year and the global economy will heal gradually. To help understand how industry sectors are likely to perform, we can divide them into three segments that:

— benefited from the lockdowns;

— suffered and are vaccine dependent; or

— were only partially impacted but sensitive to the policy response.

From a geographical perspective, some regions have contained the spread of the virus more effectively than others and are bouncing back more rapidly. Many Asian countries have avoided prolonged lockdowns. With the recovery heading in the right direction, we're confident about the outlook for company profits and stock market returns.

2. Inflation is absent but there are risks.

We expect inflation to pick up in 2020 but not dramatically. The pandemic has forced unemployment higher and created spare capacity in the economy. those who have saved most during the pandemic are more likely to reduce debt or top up their pensions than spend.

We do not expect the tide to meaningfully turn for the assets that have benefited from low inflation – notably government bonds and growth companies. With yields already at record lows, new buyers of bonds receive only a small income and the potential for capital gains appears slim. Similarly, in equity markets, we believe better investment opportunities lie outside growth companies.

3. Globalisation has become more regional.

Although the health crisis has challenged globalisation, there have been some developments in regional integration. For example, Australia, New Zealand and 13 Asian countries, including China, signed the Regional Comprehensive Economic Partnership in 2020. In the US, Joe Biden's economic team has indicated it wants to engage with the rest of the world in a more cooperative way.

From an investment perspective, we believe Asian emerging markets are best positioned to prosper in this environment. Many are increasingly self-reliant, moving away from exporting goods to developed markets. They offer a rich source of successful businesses across a range of sectors, from luxury goods to innovative technology and financial services companies.

4. Tech firms face regulatory challenges.

The companies whose fortunes have been most obviously lifted by the pandemic conduct their business over the internet. While they have the potential to keep growing their earnings by entering new markets and launching innovative products and services, policy and regulation can have a significant impact on their business models.

Another issue for the large firms is market saturation and whether they have enough room to continue growing in order to justify their valuations and the potential for further share price gains. However, we continue to believe the technology sector provides opportunities to invest in companies with disruptive business models that are revolutionising their industries, and addressing changing consumer needs.

5. Building back better

The pandemic has put environmental concerns and social inequalities in the spotlight, and policymakers have responded by declaring the recovery can improve the world by "building back better". For example, the EU has earmarked around a third of its €750 billion recovery fund to fighting climate change. Other regions have made similar commitments.

There are lots of ways we can gain exposure to companies that have the potential to benefit from government spending packages and policies designed to support a sustainable recovery. Although we don't select the investment managers in our portfolios based on their ESG credentials, we do expect that they will integrate these risks and rewards into their processes.

If you have any question about what these themes might mean for you please get in touch.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Past performance is not a reliable indicator of future performance and should not be relied upon

OW3217 Exp. 09/03/2022

Can your pension sustain your retirement?

Working out how long your pension pot will need to last – as life expectancy rises – is worth thinking about sooner than later.

The lockdown caused many people to reassess their lifestyles, which for some meant choosing early retirement. But what retirees have found is that pension pots are not matching the period of time needed to enjoy a comfortable life.

Life expectancy is going up. The Office for National Statistics offers an online calculator which gives an estimate of life expectancy – and with it an idea of how many years people will need their pensions to sustain them.

What's your number?

The 'Class of 2021' report from Standard Life Aberdeen lays out how much value an average pension pot needs – around £366,000 if you multiply the average annual amount retirees surveyed said they would spend (£20,000) by 20 years of post-retirement time. A third said they had less than £100,000 saved.

Retirees need more than they think

The survey reported that two thirds of retirees were at risk of running out of money post retirement. Along with people living longer (on average, people aged 55 today will live to their mid-to-late 80s) there is the issue of rising inflation which raises the cost of living as years go by. Volatility in the investment markets also adds to the concern for people approaching retirement when it comes to pensions.

How to plan for the years ahead

Those surveyed did have plans to tackle this issue, however. Half of the those surveyed aimed to reduce the amount of money they spent on a day-today basis in order to save for retirement. Other considerations include downsizing their home and seeking part-time work after retirement in order to generate an income.

There is concern among almost half of those surveyed about being financially ready to finish working in the coming year. Yet many are aware of the need to be prepared when it came to their finances post-retirement, making any necessary adjustments – ideally with help from a financial adviser.

Keeping track of workplace pension plans and thinking about consolidating them into one pot might be a good place to start planning towards the goal of making your retirement as financially worry-free as possible.

Our financial advisers can help you review your pensions and advise on how to make the most of your pension.

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OW3512 Exp. 12/08/22

Should we be concerned about rising inflation?

Most economists expect inflation to pick up over the next few months as lockdown restrictions ease and shops and restaurants reopen. But is this a cause for concern?

As lockdown measures begin to lift, financial markets are making their adjustments in anticipation of a rise in inflation, with bond yields picking up (meaning prices have fallen) and stock markets rotating from defensive sectors into cyclicals.

What is inflation?

Put simply, inflation measures the change in the prices of goods and services. If it rises then it takes more of our cash to buy things. We all experience inflation in our daily lives, from filling up our cars with fuel, buying groceries or using public transport.

In the UK, the official measure of inflation is the Consumer Prices Index. It's published by the Office for National Statistics (ONS), which monitors what people are spending their money on, using a basket of everyday goods and services.

The ONS adjusts the basket from time to time to reflect our changing spending habits. During lockdown, there was a shift with products like hand sanitiser and hand wipes being added, and items like white chocolate and ground coffee dropping off the list.

Inflation is all an illusion… or is it?

It's easy to ignore the impact of inflation on your finances. Most people's spending habits this month compared with the same time a year ago would probably stick to the same patterns – regardless of inflation at the time – because the differences seem small and therefore wouldn't affect the way they spend.

If you're trying to save money though, it's worth remembering that with interest rates currently lower than the rate of inflation, the real value of any cash savings is falling. In other words, the cost of living is increasing at a faster rate than your savings are growing, which means the spending power of your money is actually falling.

How will inflation affect investments?

Many people in the UK are preparing to spend the cash they've saved over the past year when the lockdown ends and shops, restaurants and entertainment venues reopen. Activity is likely to return to pre-pandemic levels and the expectation is that inflation is likely to pick up. Some economists are worried about inflationary pressures. In addition to this is the effect of government stimulus packages on the economy, which would provide another tailwind.

However, experts believe it's likely to be a short-lived phase and should not pose a longer-term challenge to fixed income or equity markets. The Bank of England does foresee inflation rising towards the 2% mark, but believes it will be a temporary phenomenon. Continuing deflationary forces like ageing demographics, technological innovation and global supply chains cast doubt over predictions of a new era of inflation.

Ultimately if you want to beat inflation in terms of finding some good returns on your savings, investing is the best option at the moment – due to cash savings rates being at such low levels.

One of the best ways to ensure your investments are given the strongest opportunity to navigate the effects of inflation on financial markets is through a global, multi-asset portfolio that's actively managed by a professional team of investors. Speak to a financial adviser to find out more.

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OW3380 Exp. 04/06/22

What is income protection?

Income protection insurance pays out a percentage of your monthly income if you are unable to work.

Your income is important and keeps your family secure. So, if you are in a situation where you'd like to protect it if anything happened, you might want some income protection.

How does income protection work?

Income protection is an insurance policy, so you pay a monthly or annual premium for it like any other type of insurance. If you can't work because of sickness, disability, or other reasons (depending on your policy criteria), you will receive a regular income until you either return to paid work, retire, pass away or the policy term comes to an end.

The amount that is paid could be anything from 60% to 65% of your pre-tax income, and payments (which are tax free) will start after a pre-agreed waiting period, which could be weeks or months. You'll pay more in premiums if the waiting period is shorter, and the percentage of your income is larger.

Income protection is different to life insurance or critical illness cover, both of which do not pay regular amounts but instead give you one-off lump sums in the event of your death or the diagnosis of a critical illness. That's why it's important to seek financial advice if you are thinking about getting coverage.

Who could benefit from income protection?

If you work in a high-risk profession or have high-risk hobbies, you might want income protection in case you're unable to work because of an accident. If you've suffered an illness and feel you're at risk of being unable to work because of it, income protection could provide peace of mind, too.

Some things to consider if you are thinking about getting income protection include:

- if you have a good level of statutory sick pay from your employer, you may not need more cover.

- is it the best option for you and your situation? For example, do you (or your partner or spouse) have sufficient savings to help provide an income if you were unable to work?

- can you keep up with the premiums?

- will you find any exclusions in your policy difficult to manage?

- are you close enough to retirement to not need income protection?

How are premiums calculated?

As with any insurance policy to do with your life and health, factors like your age, health condition, if you smoke, your occupation and others (like how much of your income you would like to receive, and how soon you would like payments to start) will be considered when your premium is calculated.

Our Protection Advisers will be able to give you advice and guide you through what type of policy works best for you, helping you find value for money as well as some peace of mind knowing your income is protected.

Our advisers can help you find an income protection policy to suit your needs and keep your family secure.

OW3654 Exp. 19/10/22

Capital gains tax and shares

If you sell shares, funds, or other financial products, you might need to pay capital gains tax on your profits. It's good to be aware of how your investments are taxed when it comes to selling them, and make sure you arrange your investments in the best way to avoid paying more tax than you need to.

Several assets are exempt from capital gains tax (CGT), such as your home and any personal belongings worth less than £6,000 (like a car for personal use). However, when selling investments

such as shares, funds, investment trusts or other financial products you will be charged CGT if you go over your annual CGT allowance depending on your tax band.

What is CGT?

CGT is a tax on the profits earned from selling an asset. You only have to pay CGT on your overall gains above your tax-free allowance – known as the annual exempt amount – and the amount depends on your tax band.

In the 2021/22 tax year you can make £12,300 in capital gains before you pay any tax. Couples can double this by pooling their allowances. The tax-free allowance for trusts is £6,150.

If you're a UK resident, you may be liable to CGT on disposals of assets located anywhere in the world, not just those based here.

Do I need to pay CGT on shares?

If you make a profit when selling shares, you may have to pay CGT. Any profit made on selling shares taxed at 10% if you're a basic rate taxpayer and 20% if you're a higher rate taxpayer. You don't usually have to pay CGT on shares if you give them as a gift to your husband, wife civil partner or a charity. You also won't have to pay CGT when you dispose of:

- shares you've put into an ISA or PEP
- shares in employer share incentive plans (SIPs)
- UK government gilts
- NS&I Premium Bonds
- qualifying corporate bonds
- employee shareholder shares (depending on when you got them)

How much CGT will you have to pay?

So, you've bought some shares and managed to sell them for a profit, but how much CGT will you have to pay? Imagine you've spent £5,000 on shares and sold them for £30,000, giving you a £25,000 profit.

You don't pay CGT on the first £12,300 of the gains made, which leaves a taxable amount of £12,700. The shares are charged a CGT at 10% or 20%, depending on your tax band. A basic rate taxpayer who has to pay CGT of 10% would pay £1,270. A higher rate taxpayer who pays 20% CGT would have to pay £2,540. If you make a loss on your shares, the amount can be off set/deducted from any gains you made in that tax year. If you have shares from your employer, it's worth checking on the rules around CGT and those shares, as they can be different.

How are dividends taxed?

A dividend is a share of a company's profits distributed to its shareholders, usually paid out quarterly. If you receive a dividend payment you may have to pay tax on that income. The good news is that it's possible to receive some dividend payments each year without having to pay any tax.

All taxpayers get an annual tax-free dividend allowance of £2,000, which is the amount you can earn each year without having to pay any tax. Anything above this level is taxed according to your income.

Basic rate taxpayers are taxed at 7.5%, while higher rate taxpayers are taxed at 32.5%, and additional rate taxpayers at 38.1%. These rates will increase by 1.25 from April 2022 to help support the NHS and social care reforms.

Benefits of pensions and ISAs

If you want to avoid paying CGT or tax on dividend earnings unnecessarily you could consider investing your shares in a tax-free wrapper like an ISA or a pension. Shares held in an ISA account can grow free from tax, meaning you don't pay tax on capital gains, dividends or income made on any gains from your investments. A self-invested personal pension (SIPP) is a wrapper that allows you to control the specific investments you make, and just like ISAs, with a SIPP your investments can grow free from capital gains, dividend, and income tax.

While working out how much tax you're going to pay when you make a profit on an asset might seem complicated, it doesn't have to be. Our financial advisers can help you arrange your investments in the best way to make the most of their potential, including when you sell them.

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HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

OW3651 Exp. 15/08/22