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RT FINANCIAL PLANNERS LTD

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Economic Outlook For 2019

The latter part of 2018 saw continued volatility in equity markets, particularly over the last quarter, with one of the largest market falls since the financial crisis in 2008. Brexit has been the main talking point for the British press but for global markets, US/China trade has been more influential with the prospects for global growth going forward being questioned as President Trump's erratic approach to trade policy, combined with a tightening of monetary conditions, raised fears of a more pronounced slowdown.

We believe markets will remain volatile in 2019 as markets swing on the words of central bankers and politicians. However, we don't really believe that most valuations are stretched in equity markets, so we must try to overlook short-term volatility for longer-term gains.

We cannot write without some mention of Brexit! A resolution remains unclear. The never-ending uncertainty is continuing into this year, leaving the UK equity market one of the least loved in developed markets as international investors remain wary. Given the falls equity markets have already experienced, we believe that a lot of negative news already appears to be priced in. Any Brexit deal now agreed will support the domestic part of the UK economy, rather than companies with overseas earnings, which benefited from the collapse of sterling.

We have had some concern about the European equity market for some time, mainly due to pressure on the banks following the situation in Turkey, Italy and recent political uncertainty in France, which has seen President Macron's policies protested, and ended up with his capitulation which will push the 2019 deficit budget above the 3% of GDP imposed by the EU. The Italian government continues to seek an agreement with the EU and is making progress towards their demands. As a result of weak data, muted growth prospects and political risks, we are very cautious about prospects for the European (ex UK) equity market.

The US economy remains in solid shape despite a big wobble in its equity markets. It remains the market we believe to be home to the most high-quality companies which are most likely to offer sustained growth over the longer term. So, whilst there is likely to be more volatility than we have seen in more recent years, we remain comfortable with US equity investments.

Economic Outlook For 2019 (continued)

In the meantime, China's economy is losing steam and it is unclear how successful attempts to reinvigorate activity through renewed credit and fiscal stimulus can be against the backdrop of leveraged balance sheets and trade tensions with the US.

In India, economic growth has been on a positive upward trend and we expect it to gather further strength this year. We believe private consumption will remain the dominating growth driver, supported by strong expansion in per capita income.

Elsewhere in Asia, economic growth is expected to remain steady, predominately driven by robust private consumption. We believe Asian economies are well-positioned to withstand contagion risk from other emerging markets, given their stronger trade balance, and improving debt profile. Asian countries are not like Argentina and Turkey, which are running much higher current account deficits. In addition, their overall external debt to foreign exchange reserve level is also much lower.

Elsewhere, Japan's economic and market fundamentals appear to remain on the right track: GDP growth was broadly sustained; inflation remains under control and – most importantly for equity investors – corporate governance reform has made steady progress. Although we are aware of the increased macro and market uncertainties externally, we are relatively optimistic that Japan's sustained recovery may not be derailed given ongoing structural changes.

Fixed interest remains a difficult asset, albeit essential to hold for diversity. Political sentiments continue to influence valuations, and liquidity is an ongoing problem. One manager has indicated that for the first time in several years, there does now appear to be some pockets of value in the credit markets and although stock selection will remain vital, it seems that there may now be some opportunities. We remain cautious in this asset class, but continue to support holdings for balance in portfolios.

So, while markets are currently heavily influenced by comments on Twitter and sentiment, it is important to look past this and more closely at what the companies are actually doing. Although we believe that equity markets are well supported at current valuations, we expect wide disparity in performance between different companies, sectors and countries in the year to come – meaning active management remains key.

With heightened volatility likely to continue, in the main, we would suggest sitting tight in the short term through these times of market stress for longer term gains that we believe will come through again in due course as global economic data remains sound.

Financial Services Compensation Scheme Protection

The Financial Services Compensation Scheme (FSCS) is an independent body set up by the UK Government to provide compensation (or another form of resolution) where an authorised financial services provider gets into financial difficulties and becomes unable to meet any claims.

While you may hopefully never need to make any claim, I felt it may be helpful to recap on the protection as there are limitations in the amount of compensation and this will depend on number of factors, such as eligibility and the type of financial product or service.

Individuals or owners of small businesses who take out financial products will normally be eligible to make a claim under the FSCS. Large companies may also be able to claim, but only in respect of their long-term insurance contracts. Depending on the type of financial product you hold, the maximum amount of compensation varies.

The FSCS will not provide protection in all circumstances, for example, there are upper limits on claims, and there will be no cover if the firm providing the financial product or advice was not authorised to do so. Additionally, poor investment performance, such as a fall in the stock market is not a reason for a claim (unless any financial recommendation is proven to be unsuitable).

The FSCS operates different levels of compensation, which depends on the type of policy involved and the normal limits are shown below:

Deposits are perhaps the most widely known and the FSCS would pay compensation up to the limit of £85,000 per person, per authorised deposit Group (bank, building society and credit unions). Since 3 July 2015, the FSCS provides a £1 million protection limit for temporary high balances held with your bank, building society or credit union if it fails. Please note this limit is currently set linked to the Euro so does change from time to time.

Long-term insurance, which includes workplace pensions, personal pension plans, annuities, endowment policies and investment bonds – provides protection for 100% of the claim with no upper limit for the claim amount.

Investments, including Unit Trusts, Open Ended Investment Companies and Stocks & Shares ISAs also provides 100% but is limited to £50,000 per person, per firm in default.

Home Finance (e.g. Mortgage advice and arranging) – cover is for 100%, but again is limited to £50,000 per person, per firm in default.

General insurance policies (eg home or travel insurance) 90% of a claim with no upper limit. Compulsory insurance, such as car insurance, is fully covered with no upper limit.

New Costs and Charges Reports

There have again been new requirements brought in under legislation, this time they call for investors to be notified of all charges on their investments on an ongoing basis. For some considerable time now, it has been required that charges are notified and agreed at outset, this change means that this has to be updated and a 'personalised and aggregated' view of all costs provided in writing at least annually for anyone receiving ongoing investment services.

The new costs and charges disclosure document will be broken down into categories showing separate one off, ongoing, incidental or transactional costs where relevant. They will include the following:

Service charges – this will be the charges paid to the platform, wrap or product provider

Investment product costs – which will be those taken by the fund manager or fund provider

Adviser charges – the charges paid by the provider to RT Financial Planners for the initial or ongoing advice. This may include discretionary manager fees (e.g. Vestra) if this is applicable

So you are likely to receive this new notification soon from your investment provider – it is not a note of new or additional charges, simply a new requirement for ongoing confirmation of the total charges to keep you informed.

As ever, if you have any questions please get in touch.

Reminders For The Tax Year End

Although it is only January, the end of the current financial year will creep up on us very quickly, so we should remind anyone who wishes to make the most of certain tax breaks to contact their adviser very soon if they haven't yet made arrangements.

Maximising current year's pension contributions and using any surplus allowances from previous years is essential for some people, as unused allowances from 2015/2016 will be lost altogether after this April. With the severe restrictions in pension contributions for high earners this is a potentially valuable allowance that shouldn't be overlooked.

ISAs also need to be arranged before the end of the year if your current allowance isn't to be lost. Whether or not returns are low, this remains a very sensible way of taking £20,000 of capital per person out of the tax system.

Other tax breaks, such as VCT and EIS allowances, and gifts for Inheritance Tax purposes should also be considered and completed where applicable before April.

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