RT FP

RT FINANCIAL PLANNERS LTD

# NEWSLETTER – JANUARY 2022

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| ❖ What will 2022 bring?<br>❖ January's Market Turbulence<br>❖ Protecting Your Family or Business<br>❖ Tax Year End Reminders<br>❖ Our New and Improved Website<br><br>**RT Financial Planners is regulated by the Financial Conduct Authority** | | ***RT Financial Planners Limited***<br>T: 01285 886111 or 01242 604066<br>E: enquiries@rtfp.co.uk |

## Outlook for 2022

Ongoing inflationary shocks, possible increasing interest rates and the emergence of yet another Covid variant are all making navigating the next twelve months more challenging for investors. Despite these headwinds, there are reasons for optimism this year. A recent article I read summed up the likely drivers for the year ahead, as being 'the three 'i's'. *(See overleaf for some context due to very recent market events)*.

**Infection rates** We are generally encouraged by the global progress on Covid. In developed markets, the vaccine rollout and development of treatments has been a success, but Omicron acted as a stark reminder that the world is only as good as the weakest link the vaccination chain. This should concentrate the minds of global leaders in the year ahead and allow the continued re-opening of the global economy, although we remain mindful that the long term implications of Covid remain uncertain.

**Inflation** So, although the recovery from the Covid crisis continues, and global activity now exceeds its pre-pandemic peak, this rapid rebound has encountered supply constraints in many sectors and economies, leading to a surge in global inflation. Some of these demand supply imbalances should ease over the coming quarters, helping to cool price growth, but it really is quite difficult to imagine that Covid hasn't irreparably damaged the supply side of the global economy, and with it the more favourable balance between growth and inflation we have been accustomed to.

Inflation will continue to be a key theme and it is likely that rates will remain high for some time, although we have seen signs that raw material availability is improving, transport bottlenecks are easing and shipping ports are running more freely. Forecasts indicate it is likely inflation will peak in the first or second quarter of 2022, and it is possible there may be slightly reduced pressure on costs from commodities and supply-chain issues easing. Currently, the labour markets is a stumbling block for optimism about inflation – but perhaps some of the millions who exited the workforce may return, helping to ease the supply side damage inflicted by Covid.

**Interest rates** The third 'i' follows on from the second, as while investors are watching inflation, central bankers are watching it with a much closer eye. Concerns have been raised by the Federal Reserve Chairman as well as the Bank of England. Even the more optimistic forecasts for the path of inflation in the US and the UK have it persisting at levels that are likely to make central bankers nervous. While some of the interest rate hiking that may be required is already reflected in market expectations, it is possible central banks may have to pursue policy that is less market-friendly

We still believe the global recovery has further to run. But we also expect to continue to see even larger divergences in growth, inflation and policy from country to country.

Corporate profits have been one of the few bright spots as company earnings recovered strongly during 2021 and, in most cases, have now more than regained all the ground lost after the Covid pandemic originally emerged. The strength of this revival in profits has been quite spectacular. Rebounding earnings proved that even the most optimistic projections from analysts were, in fact, too pessimistic. In the end, companies delivered earnings results that beat analysts' projections during every one of the last six quarters – a consistent pattern of expectations being exceeded. In addition, higher revenues represented a welcome surprise following a long period of weak growth.

We are at an important juncture. While the first half 2021 marked the peak in profits growth, this has slowed – but a slowdown in the rate of growth has been inevitable as the recovery advances. There are no reasons to believe that corporate profitability might mot continue to increase for some time yet. A global forecast of two years of above trend nominal gross domestic product (GDP) growth underpins strong revenue forecasts. In general, broad-based inflation and a strong nominal growth environment are supportive of corporate revenue and profits growth.

The outlook still remains favourable, and in particular, the for those companies that can pass on price increases and grow their top-line revenue faster than their cost base. Companies with good pricing power that can grow their earnings in an inflationary environment should emerge as winners. Those with high margins are also in a good position as they may be less sensitive to rising input costs. Businesses with short supply chains and a good sourcing strategy are also likely to continue outperforming.

The initial early recovery from the pandemic saw businesses across all sectors post strong profits. Going forward, as the cycle matures, the opportunities to make money are likely to be more selective than before. There are some sectors which remain well positioned for continued earnings growth. For instance, industrials are likely to benefit as companies have increasingly committed to capital investment. As economies fully reopen, there is also scope for a shift from goods to services consumption, which could benefit consumer services stocks, especially in areas which have not yet fully recovered due to pandemic restrictions. All of this underlines why we firmly believe that funds with active asset allocation remain key in the current economy.

# RT Financial Planners

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## Current Market Activity

We do not usually make too much in the way of comments about current or potentially short term market activity but as it is so current, and we have spent some time dealing with e potential for markets this coming year, I felt it appropriate to include some thoughts about the current apparent sell off.

Markets have been hit very badly, but also, we have been monitoring the fact that some funds, that are generally excellent funds, have considerably diverged from markets in recent times. One of the reasons is that we tend to recommend funds with more quality companies and they aren't the ones that were, until this last week, boosting the FTSE and S&P.

A main cause is, of course, news about the tensions between Russia, and 'The West', which have clearly heightened. This, combined with enduring concerns around the Federal Reserve (Fed) tightening, have at times sent global markets into a frenzied downturn.

So far, the real extremes of the sell-off have been contained to the riskiest parts of the market and the more speculative stocks that have done well in the last two years.

We have seen that equity market corrections are fairly common, with pullbacks in excess of 10% (defined as a correction) in 12 of the last 22 years (S&P 500).

The key to surviving any of these corrections, has been a balanced portfolio across asset classes and geographies, as well as a focus on quality companies with organic growth and strong balance sheets, and that is exactly how we aim at selecting funds and positioning portfolios for our clients.

Equity corrections are always painful, but they are part of a normal market cycle. The key to longer term returns is to avoid selling and allow managers to take advantage of under-priced assets when they present themselves.

## Reminders For The Tax Year End

Although it is only January it is amazing how quickly the end of the financial year will be upon us. This year the fiscal year end falls just after the Easter holiday, so, unlike last year, the year isn't cut short.by bank holidays.

Maximising the current year's pension contributions and using any surplus allowances from previous years is essential for some people. Any unused allowances from 2018/2019 will be lost after April. This is a potentially valuable allowance that should not be wasted. As a reminder, you must fully use the current year's allowance before utilising the previous unused amounts that may be available.

Anyone drawing income from their pensions and wishing to maximise income charged at lower tax rates may wish to consider additional ad-hoc amounts to use any unused nil or lower rate bands.

ISAs also need to be arranged before the end of the financial year if your current allowance is not to be lost. There is no facility to go back and mop up previous unused amounts for ISAs. 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 before April. I would suggest it is most sensible to do this before March.

It may also be sensible to make some encashments where there are large capital gains tied up in investment funds or shareholdings to gradually use this valuable tax allowance that is often overlooked or unused – and again, cannot be used in future if it is not used in the current year.

So, I recommend anyone wishing to make the most of certain tax breaks to contact us very soon to discuss arrangements.

## Why You Need to Consider Protection?

People are far more likely to insure things that they can see and touch rather than themselves, their business partners or families. And it is human nature to avoid thinking about death or serious illness but, sadly, these things can and do happen.

That's why having insurance in place to help protect from the financial consequences of these events is so important. There are options to suit most needs; it may be sensible to consider a lump sum to pay off the mortgage, a policy to give a regular 'income' to your family to replicate the loss of an earned income, or a policy to ensure your business can continue, or be wound down in an orderly fashion, in the event of unforeseen circumstances.

All of policies can be flexibly tailored to your needs and surprisingly affordable, making it an essential and sensible consideration for the right family, couple or business. Complete and effective cover requires a deep assessment and understanding of your family's or business needs. We can offer a full review of any shortfalls and recommend a suitable solution to give you the assurance you need if the worst should happen.

## Website Upgrade – WWW.RTFP.CO.UK

We have recently upgraded our website so that this accurately reflects the recent changes at RT Financial Planners and conveys our company philosophy, services and propositions available in an easy-to-understand format. One primary aim for our website (over time) is to become a useful tool for our clients that makes the most of the latest software to work as it should across all formats of viewing technology.

Please have a look; in time we will build on the resources page and use this to provide investment updates and useful articles for our clients in a timely and environmentally sensitive manner. We are still working on certain areas of content and will continue to develop the website over the coming months.