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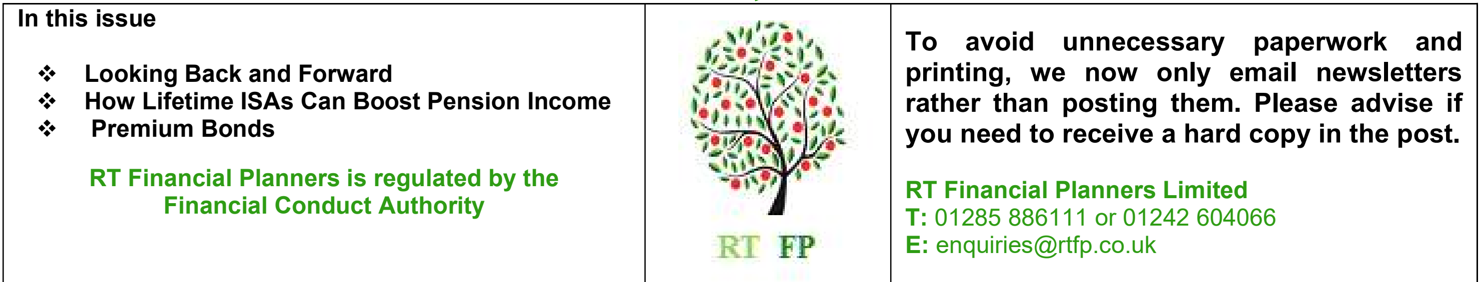

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Looking back at 2022 and on into 2023:

Looking back, 2022 was certainly a challenging year, the performance statistics for the major indices paint only part of the picture. For example, the MSCI World (£) and the FTSE All-Share produced total returns of -7.83% and 0.34% respectively. Yet the UK Conventional Gilts index saw a return of -23.83% while the FTSE All-Share Closed-Ended (investment trust) Index returned -16.57% as discounts widened meaningfully, helping to explain why conventional defensively positioned portfolios provided little relief. 2022 also saw marked share price volatility in reaction to challenging geopolitical and economic news, including UK inflation (CPI) ending the year at 10.08%, which also helps to explain why many 'growth' companies had such a torrid year. It was against this backdrop that the MSCI PIMFA Growth & Income benchmarks returned -6.12% and -8.49% respectively.

Recent newspaper and media columns have highlighted concerns about the economic outlook and policymakers' grasp of the situation both here and globally. The widespread market corrections have once again focused on the importance of recognising that the more conventional, static and risk managed 60/40 equity/bond portfolio was ill-equipped to achieve sufficient diversification in this new market regime, which is just some of the reasons we are advocates of including better and a wider selection of alternative investment strategies in many client portfolios. This does help to explain why equity weightings have ceded ground in recent years to a range of alternative assets.

Looking forward, the World Economic Forum (WEF), the body that meets at the start of every year to discuss and address the big economic issues of the day, kicked off this year's event with a warning that the world was on the brink of a dangerous 'polycrisis'. Most investors won't have batted an eyelid, as we seem to have existed in one long joined-up crisis for at least the past three years, if not the past two decades. The threats identified by the WEF include climate change, the cost-of-living crisis, geopolitical confrontation, high debt levels, recession, low growth, social unrest and cybercrime. These crises are converging, it says, to shape a unique, uncertain and turbulent decade to come.

Of course, any extension to a period of precariousness and value destruction would be most unwelcome. But even if things turn out better than expected (and not everyone at the WEF is as gloomy about the economic threats) it's sensible to plan for challenges and shocks and adjust objectives where appropriate.

Besides the impact of the 'polycrisis', monetary policy is now pretty much the opposite of what it has been for years.

Rising interest rates will continue to reverberate across the economy and will soon mean higher borrowing rates for companies, and lower profits. Just as we've had to accept poorer service from some providers who have failed to reinstate their higher pre-pandemic standards, investors may have to settle for slower growth for some years to come.

Although the rules of investing never change (stay invested, ride out the ups and downs, be diversified, buy when there is value to be had), this doesn't mean you should never adjust your asset allocation and we advocate a flexible and regularly reviewed investment strategy. Even if your investment strategy can be left unchanged, planning around future life changes, the reliability of the level of income and growth you are banking on is always a worthy exercise.

It is fair to say that last year proved challenging for investors. However, the year provided much to reflect on and perhaps threw up straws in the wind as to what the coming years may have in hand. Indeed perhaps the fundamental shifts in markets we have seen have provided more ammunition for investment managers to focus on alternative assets and increase diversification.

Many countries now boast greater economic resilience – previously considered purely as a source of commodities and cheap labour, they have deeper pools of demand, with domestic consumption nearly tripling over the past decade or so. Bigger currency reserves, a more proactive approach to looming inflation, a lesser dependency on the US$ and younger populations, are some of the reasons to be positive.

The big gainer of the past decade was US equities, particularly the technology companies. Bonds were the big beneficiary of the past four decades. Though better value of late, these are unlikely to lead the way going forward in the longer term.

Japan continues to look attractive, with a gradual change in corporate governance, including greater reverence for shareholders and dividends and price/book valuations that remain exceedingly attractive, are some of the positives.

Emerging markets are looking increasingly attractive for long term investors. The MSCI Emerging Markets (EM) index has struggled over the past decade. Company returns have broadly matched those of developed markets, but share prices have been savaged. By many measures, this index is now at its cheapest since inception. Markets can stay cheap for long periods, oft-sought-for catalysts that spark a re-rating can be frustratingly slow to arrive.

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By contrast, the UK looks well-placed as sentiment continues to trail fundamentals and prospects. Sound outperformance of the global benchmarks last year, and a good start to this, are sowing the seeds for an optimistic outlook for the wider UK stock market.

Despite the points made above and the changes implemented by many investment managers over recent years, portfolio balance and an appropriate level of risk for you as an investor should always be maintained. In addition to focusing on the right regions, investors will need to ensure adequate exposure to the long-term secular themes of the future, which may include areas such as smaller technology companies, and the full spectrum of opportunities within the healthcare, alternatives, private equity and climate change themed sectors.

Supplement Retirement Income With a Lifetime ISA

Lifetime ISAs (LISAs) have been largely overlooked as investments for planning for later-life income, but with the ever increasing restrictions on pension contributions, they may become an increasing part of retirement income.

LISAs have had a slow start since their introduction in 2017, but the number of accounts set up annually has gradually grown since then with over 500,000 LISAs subscribed to in the 2021/2022 tax year.

One of the main benefits of a LISA is the addition of the Government bonus at 25% of the amount invested. To avoid the loss of this bonus, funds accumulated in LISAs can only be withdrawn for two purposes: a property purchase for a first-time buyer or once the investor has reached age 60.

Property purchase has been the main focus of investors setting up LISAs to date, and as a LISA can only be opened before age 40, we will have to wait a number of years before the first LISA holders reach age 60 so it remains to be seen whether it will become a source of retirement income for many. However, one advantage of using the LISA this way is that entire fund would be available tax-free from age 60 onwards, compared to pension income with only 25% tax-free and the rest taxed as income.

There are downsides to the LISA: the annual subscription limit is only £4,000 so a maximum total of £5,000 with the government bonus included. And while the 25% LISA government bonus replicates the basic rate tax relief, crucially, higher and additional-rate taxpayers saving in a pension can claim an extra 20% or 25% tax relief from HMRC.

When the LISA was first announced there were fears that they would complicate investing for retirement. It is now possible that for some investors, there are compelling reasons why the LISA can be used as a complement to the tax benefits offer by pensions.

Premium Bonds Facts and Fiction

Many of our clients hold Premium Bonds for some accessible funds, and the size of the holdings vary from a few thousand to the maximum of £50,000. Last year they celebrated their 65th anniversary, from when the first prize draw was held on 1 June 1957. June 2022 was the 781st Premium Bonds prize draw and ERNIE (Electronic Random Number Indicator Equipment), the machine that generates the winning numbers, has paid out more than 601 million prizes worth £24.4 billion.

It isn't surprising that a number of myths have developed around Premium Bonds…the most common ones include:

Only new Bonds win prizes Each £1 Bond has an equal chance of winning, regardless of when or where it was bought. The power behind Premium Bonds has been upgraded to ERNIE 5. and is powered by quantum technology, which uses light. This new technology allows ERNIE to produce enough random numbers for a monthly prize draw in just 17 minutes. And because it's random, every Bond number, whether it has 8, 9, 10 or 11 digits, has a separate and equal chance of winning a prize. In the last three draws about 6% of all prizes have been won by bonds purchased before January 2005. Bonds bought more recently may seem to win more often because 98% of Bonds have been bought since the year 2000.

Old Bonds are left out of the draw Winning numbers are generated randomly and then matched against eligible Bond numbers afterwards – numbers aren't entered into or stored in ERNIE so it's not possible for any Bonds to be left out of the draw. Even Bonds bought as far back as 1956 are still eligible for the draw.

Bonds from the South East are luckier than elsewhere If it seems that more prizes are won by holders in the South East, that's because there are more Bonds held there compared to the rest of the UK. However there have been winners of the £1 million jackpot from every region of England, as well as in Scotland, Wales and Northern Ireland.

You can only win if they have the maximum amount invested Jackpot winners have had different amounts invested over the years – one of this month's winners had a holding worth just over £4,000, and one very lucky winner won in 2004 the jackpot with just a £17 holding!

Bonds need to be bought in a block to increase chances of winning Since no Bonds are actually entered into ERNIE, it doesn't 'know' anything about the Bonds themselves, such as whether the Bond number is part of a sequence of numbers or not. In the January draw ERNIE generated 12.8m numbers, which were matched up to almost 5m eligible bonds.

Hopefully the above has dispelled some of the myths around the world of Premium Bonds, and maybe "Agent Million" will visit one of us very soon!

LISA stats from GOV.UK; Premium Bond Stats from NS&I

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