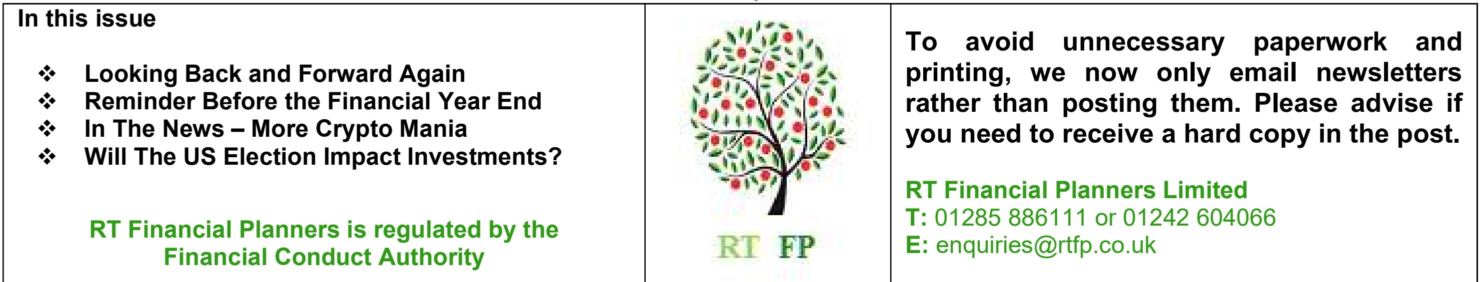
RT FP

RT FINANCIAL PLANNERS LTD

NEWSLETTER – JANUARY 2024



In this issue

- **Looking Back and Forward Again**
- **Reminder Before the Financial Year End**
- **In The News – More Crypto Mania**
- **Will The US Election Impact Investments?**

RT Financial Planners is regulated by the Financial Conduct Authority

To avoid unnecessary paperwork and printing, we now only email newsletters rather than posting them. Please advise if you need to receive a hard copy in the post.

RT Financial Planners Limited
T: 01285 886111 or 01242 604066
E: enquiries@rtfp.co.uk

Looking Back At 2023 and Forward to 2024

Those of you who regularly read this newsletter, and our more recent economic and investment updates will know that we have, for some time, been banging the drum about the impact of high inflation and resulting increased interest rates on investment portfolios. As a reminder, the impact is broadly that increasing rates available on savings will draw monies away from riskier assets. All things being equal, the opposite is also true – giving some cause for optimism.

To recap, 2023 started with low and declining expectations for global growth and heightened fears of a recession. However, China's reopening, large fiscal stimulus in the U.S. and Europe, and the residual strength of U.S. consumers stabilised growth. Additional market optimism resulted in a broadly positive performance for risk markets. That was despite the largest increase in interest rates in decades, major wars, and an energy crisis just to mention a few of the significant headwinds that prevailed.

Despite this gloomy backdrop, positive economic data was enough to lift equity markets, which could be seen by some as complacency against a framework of declining consumer strength and increased household debt. Household liquidity trends indicate that for 80% of consumers, excess savings from the COVID era are already gone, and by mid-2024 it is likely that only the top 1% of consumers by income will be better off than before the pandemic. However, in spite of this data, optimism remains.

Some features of 2023 show signs of continuing to have a meaningfully positive impact running into 2024:

Consumer/Business Resilience: Job security and higher-than-expected earnings may help avoid recessions.

Weak China: Whilst direct China holdings will suffer, China's draconian and suffocating domestic policies significantly dampened domestic demand, which in turn stimulated and opened up global supply changes with increased exports.

Reducing Interest Rates: Central Bankers signalled peak rates earlier than expected. Reduction on margin pressures and lower rates eased pressure on companies and increased positive sentiment for future earnings.

Generative AI: created a beacon of hope for investment and growth. This particularly stimulated the US 'Magnificent 7'.

Rapid Inflation Decline: Energy, Commodity and Goods price pressures reversed. Resulting in inflation measures tumbling. At the end of 2023, the UK recoded CPI at 3.9%, the US at 3.4% and Euro at 2.9%. All being a significant reduction from the peaks of CPI at 9%+ in mid to late 2022. This data is allowing markets to more confidently start 'pricing in' interest rate falls into 2024.

Looking Forward to 2024, bond yields have fallen, which indicates that the overall consensus is that we are now past peak interest rates. If we look at the economic outlook, fuelled by the prospect of rate cuts, credit growth, business investment, lower energy prices and the apparent lack of worry from markets regarding the headwinds of supply disruption in the red sea, we can see there is optimism for more sustained growth.

Too much growth, however will result in a spike back in inflation and a rise in bond yields. Linked, the 'spiral' of wage hikes fuelling inflation also needs to be observed, although pleasingly the tightness of the labour markets appears to be easing.

Geographically, regional variances will present opportunities for portfolio managers to capitalise on potential assets being offered at a discount. These may include Europe, UK Small and Mid-Caps and China, but they will have to continue to view these prices against their risk mandates considering the risk inherent in the asset classes. The US continues to be the economic locomotive of the global economy, in spite of perceptions of its wobbling status through 2021-2022.

Ultimately, the continuing narrative into 2024 will be whether there is sufficient inflationary suppression to support an interest rate fall. The last hurdle is seeing the CPI figures stated above reduce to their target figures of 2.0% - 2.5%, which will be a tricky one to cross.

If the Fed does deliver large cuts in the coming months, markets for "riskier" assets such as equities could initially do very well. But, these gains may not be sustained. In such a scenario we would expect portfolio managers to add bonds with inflation linked returns to portfolios rather than long-term government bonds or risk assets. The ability to time this will be crucial. Clients in Multi-Asset fund solutions, or model portfolios should benefit from these shifts in the background as the managers realign the investments.

There is already evidence of positive moves into 2024. The main US Stock Markets are all posting pre-pandemic highs, the messaging coming out of Davos (The World Economic forum) is one of economic optimism, the IPO (Initial Public Offering) and M&A (mergers and acquisitions) activity appears to be increasing and many companies are signposting the prospect of positive earnings this year.

Geopolitical risk remains and there are still no signs of an end to hostilities in Ukraine, or the Middle East – the conflicts continuing to dominate headlines.

Continued overleaf

Continued from previous page

Whilst awful, it is unlikely that continued violence in these areas will upset markets much further. We do have to caveat that additional geopolitical events have the potential to disrupt, depending on their nature.

On the theme of politics impacting markets: eyes are turning to the 40 countries expected to go to the polls the year. The prospect of a second Trump presidency, is raising questions of whether this will precipitate economic instability. As a reminder: these questions were asked during the first election which, from a markets perspective at least, were significantly overblown. To labour the point (pun not intended!): history tells us that the anticipated economic impact of changes to political administration is usually overblown.

Quite apart from market dynamics, the election in the UK will result in changes to the planning opportunities available via taxation rule shifts. At this stage all changes are purely conjecture however and we will review the impact on our clients at each review. It will be interesting indeed to see the mooted changes as they are promised from all sides.

The usual caveats apply to our thoughts above: this is our opinion on the position and not a forecast. Markets, economics and politics will continue to surprise. As ever, investments have the potential to fall, as well as rise. And please do speak to us should you wish to run through any matters of concern

Statistics Source: Bloomberg, via Tatton Investment Management.

US Crypto Rulings: What UK Investors Need to Know

There has been a lot in the press about this, so we thought it may be helpful to have some clarification on the position and our views on the position for investors .

Bitcoin ETFs hit the US, but not the UK (yet): The Securities and Exchange Commission (SEC) is a US regulatory body, and they have approved Bitcoin futures ETFs, and this has sparked crypto buzz, but they're currently unavailable to UK retail investors due to FCA regulations.

Indirect impact is possible: The SEC's actions could influence the FCA's approach to crypto regulation in the UK, potentially meaning stricter rules for exchanges and platforms.

Investor protection remains key: Both the SEC and FCA prioritize protecting investors. Expect continued focus on mitigating risks in the UK crypto market.

Alternatives for UK investors: Investors could consider listed companies with crypto exposure, regulated investment products, or international platforms (with caution due to different regulations).

Remember: Crypto remains inherently risky. Do your research, understand the evolving landscape, and invest wisely. **RTFP do not advise** on access to cryptocurrencies. It may be possible that in the future, some very small exposure to cryptocurrencies may enter model portfolios via the use of ETFs, however this is some way off. Synthetic and derivative exposure is possible, but ultimately the decision to include them is delegated to underlying fund or portfolio managers

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 so it is now time to maximise the current year's allowances.

Any unused pension allowances from 2020/2021 will be lost after April. 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 mop up previous unused ISA allowances.

It may also be sensible to make some encashments where there are capital gains in investment funds or shareholdings to gradually use this ever-decreasing tax allowance. The allowance has already been reduced to £6,000 this year and will be halved again in 2024 to £3,000.

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

2024 – The Year of The Election

Given the impact their economy has globally, we are focusing on the position for the upcoming US election, and in that respect, this year will bring several challenges for investors and politicians.

Unfortunately, the S&P 500's record during US presidential election years suggests investors could experience some lacklustre returns in 2024. But let's put this into some context, since 1952, the S&P 500 has averaged a 7% gain during U.S. presidential election years. While a 7% gain is far from disastrous, it is also well short of the 17% average S&P 500 gain in the year prior to an election year. It's also below the roughly 10% average annual total return for the S&P 500 in a typical year.

The good news for investors heading into 2024 is that the S&P 500 has not declined during a presidential re-election year since 1952 and has averaged a 12.2% annual gain in re-election years. Of course, it is important to remember that past performance does not guarantee future returns, and there have only been 17 presidential elections since 1952.

The presidential election is only one of many factors that influence the stock market during election years, but analysts say there is good reason for investors to expect strong returns in re-election years like 2024.

The information in this Newsletter is to be viewed as general information and does not constitute advice. It is based on our understanding of current legislation and market conditions, all of which are subject to change. If personal advice is required, please contact us.
Although the RTFP newsletter does not contain direct marketing information and we do not promote specific companies or products, we want to ensure you only continue to receive this if you want to, so if you would prefer not to receive our newsletters in future, you may opt out by emailing newsletters@rtfp.co.uk