Market overview.

Welcome to the second edition of Market Overview – our summary of recent events shaping global markets.

Are we seeing light on the global horizon?

While political uncertainty continues in both the US and Europe, we have seen some positive movement in global markets over the last few months, and this looks set to continue – for the short term, at least.

In the UK...

After much speculation, The Bank of England raised interest rates at the beginning of November, for the first time in over ten years. The official bank rate was lifted from 0.25% to 0.5%, reversing the cut that was made last August in the wake of the Brexit vote. Although the rise will see an increase in the cost of many mortgages, savers should be able to expect better returns.

As Brexit negotiations got underway, the government published a set of papers outlining its position on a range of areas, while there continued to be mixed signals of growth in the economy. In the UK equity market, global geopolitical tensions further added to volatility.

In the US...

The US Federal Reserve voted to raise interest rates by 0.25%. This was the second rise this year, bringing interest rates to their highest level since 2008. We also saw the rate of economic growth starting to pick up steam, even with the weaker dollar.

In August, the US equity market remained under pressure as concerns around growing political risk dominated, and Storm Harvey had a large impact. Tension between the US and North Korea continued, albeit slightly softened due to all other parties appearing to be against military conflict.

In Europe...

The German election saw Angela Merkel retain her position as Chancellor, once again, in a coalition. As the Euro continued to strengthen in August, GDP figures showed the European economy gathering more pace than in the first half of the year.

Eurozone consumer confidence is at its highest since 2001, while the European Central Bank looks set to announce a further slow down in the pace of its Quantitative Easing. With growth continuing to improve in Europe, we have seen a rebound in consumption as an improving labour market supports consumer confidence.

Spain was at the centre of attention in October, when one of its wealthiest regions, Catalonia, saw a 90% vote for independence after Catalan parliament approved an independence referendum. However, shortly after President Carles Puigdemont declared Catalonia's independence, the Spanish government stripped Catalonia of its autonomy and took charge of its government.

Phillip Hammond delivered his first Autumn Budget in November, with little in the way of surprises. However, with the seemingly precarious position of the current government and the prospect of the traditionally higher taxing Labour Party waiting in the wings, it would be foolish not to consider your options in the coming months.

The Individual Savings Account (ISA) allowance, which is currently at its highest level, will come into its own over the next year when the dividend allowance is slashed from £5,000 to £2,000 next April. Beyond that, the 10% and 20% rates at which capital gains tax is applied looks significant compared to previous standards, meaning if there is a change of Government, investors should expect them to be reduced.

With ISAs in place, there is no need for investors to place their wealth off-shore and thus becoming the subject of a "Paradise Paper" type scandal. Investors can save up to £20,000 a year in a tax efficient way without going "off-shore". Similarly, pensions can offer the opportunity for tax planning (including IHT) albeit with less flexibly.

So the annual ISA allowance of £20,000 may soon prove to be more valuable than many imagine today. Whether your priority is income or growth of a mixture of both, ISAs can help investors make the most of their money and keep HMRC's share to a minimum.

Recent trends in Financial Planning.

Following George Osborne's pension freedom legislation which came into effect in 2015, the idea of treating a pension like a bank account is now seemingly well understood within the marketplace. This did however lead to a worrying trend whereby people were taking from their retirement savings without concern for funding later in life. Thankfully this seems to have calmed, with people on the whole taking a more responsible approach to the newfound freedoms.

This more measured approach is welcome, given the number of high profile pension liberation scams, an issue which the FCA have been keen to ensure people are vigilant of. This has led to some providers insisting that advice be taken prior to any transaction. We feel this factor will lead to a far better outcome for clients, and can avoid significant shortfalls in later life funding.

One factor that is still not widely understood is the value of a pension towards estate planning. The majority of personal pensions can now be passed on to love ones after death without falling within the estate for tax purposes, providing an inexpensive solution to potentially a very expensive problem. On this basis we are now commonly recommending that clients look to utilise other assets for retirement funding.

For those without the option of using a pension for estate planning, we are seeing evidence of increasing competition within the life insurance market, with lower premiums in many cases. On this basis we would recommend all clients look to review their current situation.

If you wish to discuss your investments, or any of the points covered in the Market Overview, please get in touch.