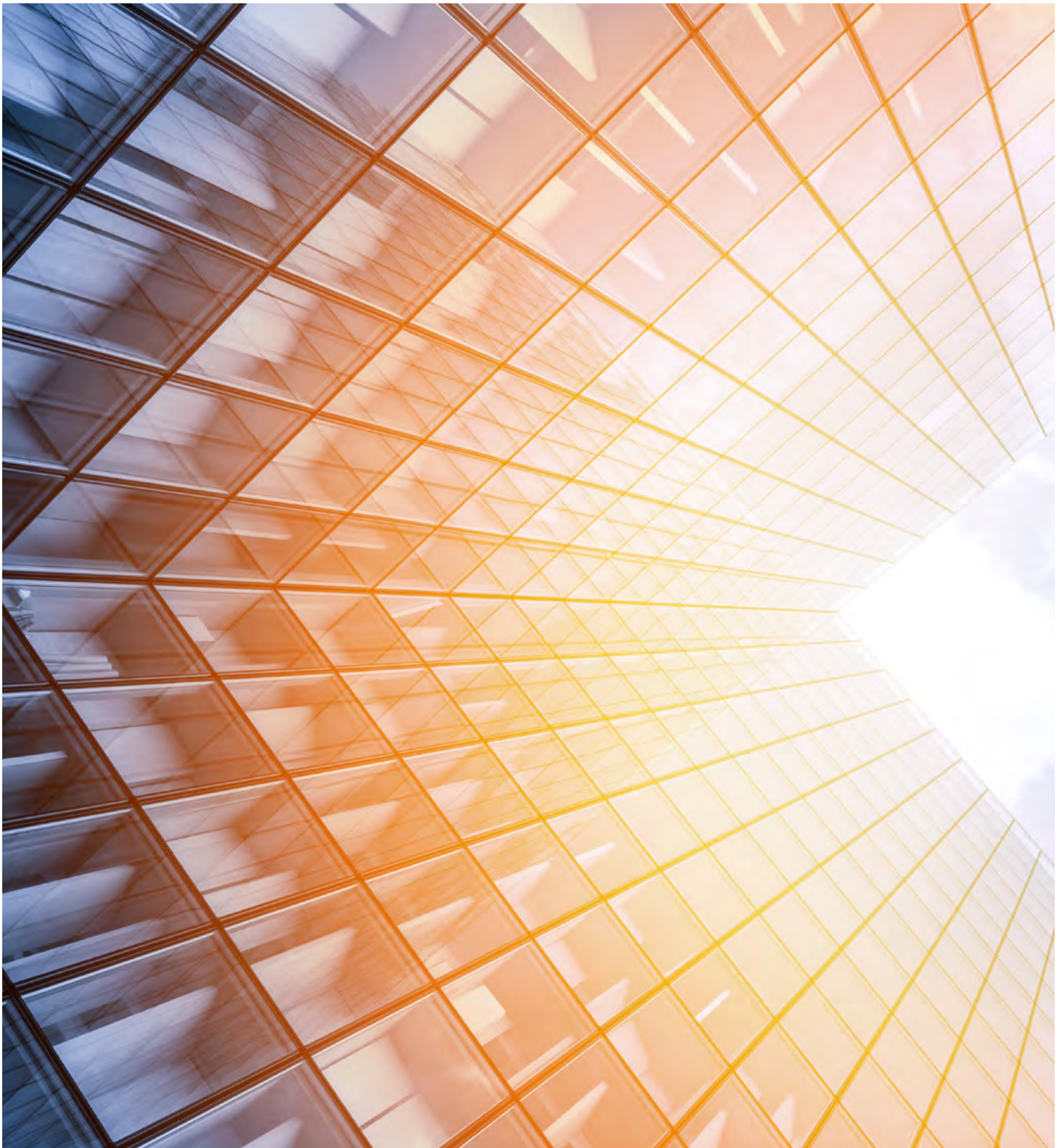
BRI Wealth Management PLC

BULLETIN

April 2020

We hope you enjoy our **Newsletter**



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CYBER ESSENTIALS PLUS

Market Commentary

My first thoughts go towards you and your family in what is a challenging time for us all. If there is anything that we can do for you at BRI then please don't hesitate to get in touch.

The world has changed in the last few months. Change on such a global scale usually takes decades to come to fruition but what we've seen happen in the last two months has been quite remarkable. We've tried to communicate regularly with you through these tough times and it would be foolish of me to labour on what happened in January and February given that the world is changing rapidly on a day by day basis. What I will try to do is focus on what is happening now and what may happen in the future. As you will most likely be reading this several weeks after it was written, it's worth noting that this was during the week commencing 6th April and any opinions or facts stated below may have changed significantly by the time you read it.

Markets have rallied aggressively over the last week or so, up 16% since the lows. This has been driven by a bit of overselling, quite a lot of private investors re-entering the market, and light at the end of the tunnel in terms of the healthcare crisis.

However, we believe that the market is not fully appreciating the economic impacts of the current virus. We are in an economic crisis which will see substantial rises in unemployment within weeks and double-digit declines in GDP. As a result of this, consumption is declining significantly, and it is tricky to see a quick road to recovery.

Yes, the lockdown will probably end sooner rather than later, but the economic consequences will last for some time. Businesses will be reluctant to quickly rehire everybody and consumers will be prudent with their consumption. Markets like the prospect of eye-watering amounts of government fiscal and monetary intervention, but this is slow to reach businesses and consumers that are in need. This is turning out to be the worst economic crisis that any of us have witnessed. The question remains as to whether the recession and recovery will be 'V', 'U', 'L' or '✓' shaped.

My suspicion is that it will be somewhere between 'U' and '✓' shaped. Also, one must bear in mind the chances of secondary outbreaks once lockdowns are rolled back. It is a tricky process to roll back the lockdown as you increase the chance of the virus spreading, but you hopefully put the economy on firmer footing. However, if you do it too soon then the economy will just re-enter lockdown.

Markets are forward looking and so they will be thinking about this question and some of this may or may not be reflected in the current level of the market. I believe that markets are not expecting significant earnings downgrades at the moment and are still pricing assets based on dated fundamentals. This is wrong. We think that once markets start to get to grips with the severity of the economic pain and the knock-on impact on companies, they may come down a bit further.

Consensus expectations for corporate earnings in America earning are -12% for the second quarter of this year and -3% for 2020 as a whole. We think these are too positive and that equities will start to reflect the actual reality sooner rather than later.

We believe that the rally we have seen in equities is what is known as a bear market rally. Meaning that markets can rally in the short term, but we still expect a bit of weakness going forward. This rally has been compounded by quarter end rebalancing (pension funds rebalancing portfolios) and retail investors seeing light at the end of the healthcare crisis tunnel and misconstruing that as the all clear signal for markets.

We also have some technical drivers that are starting to impact markets. Share buybacks (where companies buy back their own shares) in the US are c.$1tn a year and these are likely to stop. Either by the volition of company boards or because it is mandated for any company that accepts government funding. This large amount of demand for stock from American companies will cease and clearly not underpin the market. The other issue that we are seeing is companies coming to capital markets in order to raise more cash. We've had a few of these over the last week or so and these are companies that you would expect to raise money (travel, leisure and retail) and we are likely to see more of this. However, we're now seeing companies raise money that want to err on the side of caution. This makes sense for several reasons. A) to shore up the balance sheet even if it's relatively secure and B) to get ahead of other companies and the stampede for capital that is likely to ensure over the coming months.

What does all of this mean for your portfolios?

Well we have a plan and we will execute on that plan. We're awaiting further economic data and a few other bits of data before deploying meaningful amounts of capital, and any deployment will be gradual. It is worth bearing in mind that it is almost impossible to call the bottom of the market, it is just luck. We're not seeking to find the bottom, but gradually deploy capital into companies with attractive long-term fundamentals at attractive prices. However, it is important to bear in mind that short-term movements in the market are speculation, it is roughly a 50/50 chance whether markets go up one week or down. We are investing for the long term and I have every confidence that markets will be higher in the medium term than they are now. Our plan is based on our long-term views of how the world will change and how it will look in the future and we are focussing on companies that have very strong long-term fundamentals.

However, it is conceivable that our plan may have to change. It reminds me of a quote from Mike Tyson, 'Everyone has a plan 'til they get punched in the mouth'. The metaphorical punch in the mouth that markets may deliver means we have to be prepared to challenge and change plans as new information and conditions arise. This could lead us to sell equity, this could lead us to go heavily overweight in fixed interest or this could lead us to increase our international exposure. Our plan still stands under current market circumstances, but we won't know that we have to change it until we know. John Maynard Keynes once wrote that 'When the facts change, I change my mind. What do you do, sir?' Facts are changing minute by minute in the current environment and our plan needs to be flexible and nimble.

We have a plan, we may need to change that plan, but we will execute our plan.

I feel that this sorry saga has further to run and in the words of Churchill 'Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning'.

We will keep up regular communication with you via phone calls, emails, market commentaries and video interviews. Please let us know if we could be doing anymore for you in these challenging times.

Dan Boardman-Weston
Chief Investment Officer

Tax Tables 2020/21

Please find enclosed our updated Tax Tables for the 2020/21 tax year. These tables are up to date with everything announced in Budget 2020, the Scottish Budget 2020 and subsequent updates, giving you all the key numbers in one place.

Key changes for the forthcoming 2020/21 tax year include:

- The personal allowance will remain unchanged at £12,500.
- The Junior ISA limit has risen from £4,368 to £9,000, although other ISA limits are unchanged.
- The National Insurance annual primary threshold has risen from £8,632 to £9,500.
- The pension lifetime allowance has risen from £1,055 million to £1,073.1 million, with no changes to the annual allowances.
- The Entrepreneurs' Relief lifetime limit has significantly reduced from £10 million to £1 million.
- The Capital Gains Tax annual exemption amounts have risen slightly this year to £12,300 for individuals and estates, and to £6,150 for Trusts.

If you have any questions about the contents of your Tax Tables or how any aspects of your tax and financial planning may be affected in the forthcoming tax year, please call us on 01676 523 550.

Don't Fall Victim to Fraud

Recent weeks have seen many reports of cybercriminals exploiting the coronavirus pandemic to commit fraud. The opportunities for cybercrime will vary by industry but the current pandemic is already seeing an uptick in most forms of fraud.

We would urge all clients to be especially vigilant during this period of uncertainty. We have referred to the 'Take Five to Stop Fraud' campaign before in our client updates as this provides sound advice against many of the threats we all face.

STOP

TAKING A MOMENT TO STOP AND THINK BEFORE PARTING WITH YOUR MONEY OR INFORMATION THAT COULD KEEP YOU SAFE.

CHALLENGE

COULD IT BE FAKE? IT'S OK TO REJECT, REFUSE OR IGNORE ANY REQUESTS. ONLY CRIMINALS WILL TRY TO RUSH OR PANIC YOU.

PROTECT

CONTACT YOUR BANK IMMEDIATELY IF YOU THINK YOU'VE FALLEN FOR A SCAM AND REPORT IT TO ACTION FRAUD.

We would also like to highlight the Financial Conduct Authority's page on protecting you and your finances. This page provides useful links to information on other areas of your financial arrangements, such as insurance and mortgages as well as a list of typical scams and what to look out for.

https://www.fca.org.uk/consumers/coronavirus-covid-19

Our advisors can be contacted via their usual contact details, so we would strongly advise you to contact us if you have any queries or concerns.

Budget – Change to Pension Taper Allowance

In the Spring 2020 Budget, the Chancellor announced that he would be making changes to the tapered annual allowance limits for pensions.

The tapered annual allowance is applicable for both defined contribution and defined benefit schemes. It gradually reduces the standard pensions annual allowance down from £40,000 per tax year to the current agreed limit of £10,000 for those at maximum tapering.

The calculation is based on threshold and adjusted income limits which were previously £110,000 and £150,000 respectively. This has now been increased to £200,000 and £240,000 respectively from the 2020/2021 tax year. Anyone exceeding both the threshold and adjusted income limits will find their pensions annual allowance reduced by £1 for every £2 of income over the £240,000 limit.

For example

An adjusted income of £250,000 from the 2020/2021 tax year will result in an annual allowance of £35,000 rather than the full £40,000:

- **£250,000 less £240,000 = £10,000**
- **£10,000 divided by 2 = £5,000**
- **£40,000 less £5,000 = £35,000 annual allowance**

This was good news for higher earners, particularly those in the NHS Defined Benefits Scheme where this taper trap has resulted in unwelcome annual allowance tax charges and a reduced capacity to contribute into their pensions.

Although the benefits of the budget announcement increased the taper threshold – which is a significant improvement for many higher earners – the downside is that the maximum taper has been decreased from £10,000 to a £4,000 annual allowance. This means that anyone with income over £312,000 will only be able to contribute £4,000 each tax year into their pension.

From the 2020/2021 tax year there will be fewer people affected by the full tapering of the annual allowance. For those who do have a reduced annual allowance or are at the full tapering of £4,000, there are other options available to ensure that you are still able to build a tax-efficient income for your retirement.

For example, Venture Capital Trusts (VCTs) have many taxation benefits both during your working life and when you come to draw an income from the investment. However, these investments are only suitable for certain investors who fit into the appropriate risk profile and capacity for loss. VCTs are typically deemed to be a higher risk investment than investing funds within your pension where the funds can be tailored to your risk appetite, therefore VCTs should only be considered after assessing the suitability of the investment taking into account your personal and financial circumstances.

If you would like to discuss your annual allowance capacity or alternative investment strategies for your retirement, please contact one of our financial planners.

If you would like further details on potential alternative investments, please contact one of our wealth managers who would be happy to discuss this with you.

Political Update by Mark Garnier

One of Jeremy Corbyn's last claims, as he departed his role as Leader of the Opposition and (possibly least successful ever) Leader of the Labour Party, was that he had won the argument. He said this whilst referring to State intervention in the economy due to the COVID-19 crisis.

I'm no pupil of Karl Marx, but I do remember something about workers owning the means of production. The government's response to COVID-19 has been anything but Marxist. Never before has so much taxpayers' money been put into the economy to preserve so much private enterprise.

Key to the government's interventions has been a desire to keep the most basic level of our society solvent. Individuals and households have commitments. From time to time, a few lose their jobs and it is the job of the State to help them back onto life's ladder.

But with the near complete shutting down of the UK economy, millions would lose their jobs. Millions would fail to keep up on rent and mortgage payments, HP agreements and regular bills. The risk of knock-on effects throughout the economy would have been catastrophic.

But the problem is two-fold. Businesses slashing their overheads by laying off workers might manage to keep going for a bit; but come the recovery, they would not be in a fit state to be active quickly. They would have to find their workers, who might have gone to their competitors. Restarting the economy would take time.

And from a government's point of view, unloading millions of workers from the private sector onto the State's benefits books would be a logistical challenge of epic proportions.

So, the simplest and economically best response to the crisis is probably what the government has done. In keeping workers in their jobs – be those jobs in traditional companies or as self-employed individuals – the government is keeping the building blocks of our economy both intact and in place. Indeed, by using existing links between the State and the individual, the government is utilising existing financial plumbing to deliver the help. Restarting the economy will be a challenge – not least a timing challenge, as multiple levels of supply chains must restart with elegant coordination. But it will be a great deal easier under these plans than migrating people back from Universal Credit to the private sector.

So, notwithstanding the obvious collapse in the world's stock markets, the government has successfully preserved significant value in the UK economy. And it has had to do this with astonishing speed. It has taken the government around nine years to roll out Universal Credit – and it still has its faults. This State intervention, never seen before in either size or range, has had to achieve a far bigger rollout in little more than nine days.

The future holds many significant challenges as well. COVID-19 will pass. We will find a cure and we will move on. At that point, the government must step aside and allow the economy to go back to its well-regulated free market style. We must allow businesses to compete, to develop new products and find new markets. We must help our businesses seize overseas opportunities.

The government's withdrawal needs to be elegant and predictable, and be done at a pace that allows fragile businesses to be able to rebuild themselves. To do it any other way would be an historic act of folly after an historic act of economic intelligence.

And then we must pay the bills. But that is a story for another day. Stay well.