QUARTERLY ADVISER

QUARTER 1 2024

QUARTERLY ADVISER | Q1 | 2024

Welcome to this edition of The Quarterly Adviser

Against the backdrop of the ever-changing landscape of the UK economy, we believe it is more important than ever to keep our clients up to date with the latest news and discussion topics and to offer you the reassurance, that your investments are in safe hands.

For more information on any of the topics covered in this edition of the Quarterly Adviser, please don't hesitate to get in touch with your Financial Adviser via the contact details on this page.

Scott Fyffe
WEALTH MANAGEMENT

Investment update
April 2024

Index	Level 29 Feb	Level 31 March	Change*
S&P 500	5096	5254	+3.1%
FTSE 100	7630	7952	+4.2%
Euro Stoxx 600	494	512	+3.6%
Nikkei 225	39166	40369	+3.0%
Shanghai	3015	3041	+0.86%
US 10 Yr Treasury Yield	4.25%	4.2%	-0.05
UK 10 Yr Gilt Yield	4.12%	3.94%	-0.18
Bund 10 Yr	2.40%	2.29%	-0.11

*all returns in local currency terms

Overview

March saw a continuation of the broadening out of the source of returns across global equity markets, away from the so called Magnificent 7 in the US.

As can be seen in the 'league table' on the right* Japan was the standout market over the quarter. Indeed, the wider MSCI World Index recorded its best start to the year since 2019.

Whilst Nvidia still remains the focus of attention in the US, returns there too have now broadened out, with the S&P Mid-Cap index delivering a return of 5.6% in March. The FTSE 100 had its best relative month for a while, as overseas investors sought value opportunities, but the UK market lagged behind all bar China over the quarter.

*Bitcoin is not considered an investment, but it is interesting to see how it tends to occupy either the top or bottom spot, which is an indication of its inherent volatility.

After worries about stickier inflation in the US in February and March, bond markets settled down somewhat, with ten-year government bond yields almost unchanged in the US, whilst declining slightly in the UK and Europe where perhaps optimism over early rate cuts is greater.

US

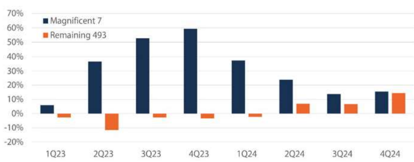
Markets took some comfort when US Federal Reserve (Fed) Chairman Jerome Powell said higher inflation in January and February appeared to have been driven by seasonable factors rather than inflation remaining stickier.

The subsequent release of the closely watched core Personal Consumption Expenditures (PCE) indicator, inflation excluding food and energy, eased to 2.8% year-on-year from 2.9%, giving further credibility to Powell's comments. Consequently, the upwards trajectory for US bond yields was all but halted, although it is still expected that the number of interest rate cuts in 2024 will be limited to 3 and not commencing until June or July at the earliest.

For now, the equity market rally remains intact with subdued volatility and witnessing a healthy broadening to more cyclical sectors beyond the important realms of artificial intelligence centric giant technology stocks.

Using traditional metrics, US larger companies, particularly technology firms, are undeniably expensive.

Corporate earnings have so far proven to be resilient, particularly for the 7 largest companies in the S&P 500, although it seems likely that their earnings growth will return to the level of the wider market later this year. The table below shows the earnings growth of the Magnificent 7 vs the rest of S&P 500 on an historic and forecast basis:



Source for Charts: S&P Capital IQ. Data as of 28/03/24. There is no assurance any forecasts will be achieved.

Europe

We witnessed the first interest rate cut by a European central bank as the Swiss National Bank cut its rate by 0.25%. The European Central Bank (ECB) meanwhile gave strong signals it is ready to start cutting interest rates in June. On March 20, ECB President Christine Lagarde said that by June, assuming the data supports inflation coming down, the ECB will *"be able to move into the dialling back phase of our policy cycle and make policy less restrictive."*

Consequently, there is increasing belief that the ECB will be the first major central bank to cut rates. Despite slow or negative economic growth across the continent, the prospect of lower rates meant we have seen new all-time highs on the Eurostoxx 600 index, with European banks performing exceptionally well as they reported higher earnings growth on the back of higher interest rates.

UK

As mentioned previously, the UK had a standout month as we saw inflation indicators come in at lower levels than previously expected, which led to increased optimism over the future direction of interest rates.

This expectation was fuelled further when the Bank of England's Monetary Policy Committee members voted 8-1 to keep rates unchanged, which was notable in being the first time that no member voted for an increase.

Governor Andrew Bailey later stated in an interview that whilst he didn't see rate cuts coming immediately, he did add that *"we do need to see further progress, but I do want to give this message very strongly, we have had very encouraging and good news, so I think you know we can say – we are on the way."* This in turn helped to support the 10-year gilt, following a difficult start to the year after November and December's exuberant rises.

Japan

After many months of expectation, Japan's central bank finally raised interest rates for the first time in 17 years, as it became more confident that deflationary pressures had eased sufficiently to warrant such an action.

This meant that rates became positive rather than negative. As a result, we saw the stock market achieve a new all-time time, some 34 years after the previous high was set. Despite the move to positive interest rates, the Japanese yen continued to weaken against the dollar, as the interest rate on dollar deposits still far exceeds that of those in Japanese yen.

However, there is growing momentum behind the market following a period of corporate governance reform, which has given more confidence to both domestic and overseas investors. There is also hope that some of the enormous savings built up in Japan during decades of deflation will now find their way into the equity market, as the return of inflation discourages savers from keeping money in cash.

Asia and Emerging Markets

Asia and Emerging Markets continued to lag those in developed markets, although South Korea and Taiwan did have exceptional months, given their exposure to the information technology sector.

China's economic slowdown continues to hang over the Asian region. However, Chinese demand for copper has spiked dramatically higher, which is usually an indicator for increased manufacturing demand.

Deflation in China is a real phenomenon and will no doubt open the gates, supported by a weaker Chinese Yuan, to a flood of cheap exports impacting western markets.

This might have a positive impact on the inflation front in the West, although politically this faces headwinds, as politicians are already publicly discouraging China from 'dumping' cheap exports.

Outlook

The promise of lower interest rates, coupled with a Presidential election are reasons enough for US markets to feel more optimistic. Supplementary to the positive narrative, we can add solid economic growth, a robust labour market which drip feeds money into credit card spending via optimistic consumer confidence.

Additionally, both the US Fed and Treasury seem to be ensuring that there is sufficient liquidity in the financial system to support this. We still need to be aware of the geopolitical and, this year, political backdrop may increase volatility later in the year and that the US market is not cheap by many measures.

However, we address these risks by ensuring that portfolios are as globally diversified as possible.

The recent broadening out of returns beyond the Magnificent 7 in the US, to the wider market there, as well to overseas markets seems to further validate this approach.

Rockhold Asset Management, with contribution from Alpha Beta Partners and LGT, April 2024

Consumer Duty and the importance of servicing.

On July 31, 2023, the Financial Conduct Authority (FCA) introduced significant regulation known as Consumer Duty, aimed at enhancing consumer protection in financial services. This initiative demands that firms prioritise their customers' needs, ensuring fair value.

By setting these higher standards, the Consumer Duty aims to foster a more transparent, fair, and customer-focused financial services industry, ensuring that consumers are equipped to make informed decisions and receive products and services that truly meet their needs.

Service Standards and Consumer Duty

The Consumer Duty mandates a comprehensive review of service standards, ensuring that all customers receive:

- Accessible customer support.
- Timely and clear information.
- Products and services tailored to their needs.
- Fair value.
- Considerate handling in vulnerable situations.

The ultimate goal is to ensure that firms not only comply with Consumer Duty but also actively contribute to the delivery of positive outcomes for their customers, demonstrating a commitment to fairness and transparency in the financial services sector.

FAQs

What is Consumer Duty and its Importance?

Consumer Duty encompasses four crucial outcomes that define the essence of the relationship between firms and consumers.

It ensures that consumers receive communications they can understand, access products and services which are tailored to their needs and provide fair value as well as receive necessary customer support precisely when they need it.

How Does the FCA Define Consumer Duty in Relation to Customer Service?

The Financial Conduct Authority (FCA) posits that for consumers to achieve their financial goals, firms must actively support them in utilising the products and services they've purchased.

A product or service that fails to be fully usable and beneficial to the customer is considered to lack fair value. The FCA expects firms to offer support that adequately meets their customers' needs.

What are the Four Pillars of Consumer Duty?

The Consumer Duty is built upon four foundational pillars:

- Products and Services
- Price and Value
- Consumer Understanding
- Consumer Support

These pillars are designed to ensure that the needs and expectations of consumers are met comprehensively and fairly by firms.

Get in touch

For further support on what Consumer Duty means to you, get in touch with your Financial Adviser today.

Are you concerned about how AI could affect your business?

AI, or 'Artificial Intelligence', is quickly becoming one of the most prominent issues in the world.

Thanks to a noted increase in practical applications for the software that programmers are making, there are now many processes that could potentially become entirely automated. Perhaps most notably, ChatGPT has been widely reported on over the past couple of months. If you own a business, developments such as ChatGPT may have you concerned. If you are, here are a few things to think about...

Should you be worried?

Whilst AI might not yet be of a sufficient quality to replace what you do, technology is catching up at such a pace that you might be nervously watching for it in your rearview mirror

That said, there are still reasons why AI does not necessarily present an existential threat to your business.

In fact, it might even present some opportunities that you can make the most of.

If you are concerned about AI, here are a few things to think about.

AI is still in its relative infancy

First and foremost, it is worth remembering that AI is still in its early stages of development. So, while impressive, the processes it can currently carry out are arguably not that advanced.

Take ChatGPT as an example. Presently, it's a free research preview, and has only been trained on data up to September 2021.

As a result, unless it has specifically been trained on it, the programme has no knowledge of events after this cutoff.

Additionally, as Forbes reports, the software can make mistakes in the answers it provides, even if the data comes from before that all-important September 2021 cutoff. This is prominently displayed on ChatGPT when you go to the site, with the disclaimer that the machine 'may occasionally generate incorrect information'.

This goes to show that while a programme such as ChatGPT is fairly groundbreaking, there is still some way to go before such technology will be flawless.

This will be true for various forms of AI.

You could make use of AI to improve your business processes

It's important to consider how AI could actually be a positive for your business, and how it can be used to help you achieve your goals faster and more efficiently.

Many companies are already doing this, and there are various free AI tools you could start using that could help you to make your business more efficient.

For example, you could consider doing things such as:

- Using virtual assistants, such as Siri or Amazon Alexa, to sort simple calendar requests and book meetings
- Encourage your employees to explore programmes such as Grammarly, an AI writing assistant, to help improve written communications by removing spelling and grammar mistakes, and plagiarism
- Design learning and training tools for individual employees to help them improve in their specific roles

No matter what you do, you may be able to refine your service and streamline your business even further by implementing certain AI programmes.

There's so many to choose from. The more you search around, the more applications you'll find. It's certainly work seeing whether there are any that you could build into your company, and your day to day processes.

Technology cannot currently replace the personal touch you can offer

Equally, although AI may help you with some facets of your business, it is important to be aware of arguably the biggest blind spot that it cannot currently, and perhaps may never be able, to overcome that It is still ultimately a machine.

Whether you produce physical goods in a factory, or you offer a specific set of services, part of a successful offering to your clients and customers will come from the connection you form with them.

So, even though AI may help you to provide your goods or services more efficiently and cost-effectively, it cannot currently replace that all-important personal interaction you have with your customers and clients.

> 'The most important single thing is to focus obsessively on the customer.'

Jeff Bezos
Founder of Amazon

In other words, make sure that you put as much emphasis on the human side of your business as you do on the quality of your offering.

There are many ways you could leverage the personal, human touch.

It could mean always having a friendly face at the start of the customer journey to explain everything potential buyers need to know when engaging with you.

Alternatively, it could be ensuring that your customer services department runs smoothly, and that clients and customers are able to speak to a human when they have questions, queries, or even complaints about your product or service.

Building AI into certain processes may be useful. But seeing as it cannot accurately recreate that human connection, you can see how important it can be to continue prioritising the personal relationship between buyer and seller.

What does the Spring Budget mean to me as a homeowner?

On 6th March 2024, Chancellor of the Exchequer, Jeremy Hunt announced the budget for the year ahead. Within this statement, a number of measures were announced mainly impacting second homeowners.

Stamp duty land tax (SDLT)

(SDLT) is the charge on the value of a property. For those who bought two dwellings within a single or linked transaction benefitted from SDLT multiple dwellings relief however this is being abolished from 1st June 2024.

What does this mean for me?

This means that if you are looking to buy multiple dwellings to rent out for example, you will no longer receive a SDLT relief if you buy multiple properties in a single transaction.

The reason for this abolishment was deemed to be because independent research was showing that this tax relief was regularly being abused rather than being used to support investments into the private rented sector as it aimed.

Higher rate capital gains tax (CGT)

Mr. Hunt announced that the CGT higher rate was being reduced from 28% to 24%. CGT is a tax charged on the profit that you make when you sell an asset that has increased in value.

This is not charged on primary residence in the UK but is charged on additional properties such as second homes or buy-to-let flats.

What does this mean for me?

This can be taken in two ways. For multiple property owners, this could benefit them as if they sell their properties, they will pay less CGT on any profits.

For renters however, this could cause a problem if the landlord wishes to sell the property now, they will receive a lower tax bill. This CGT reduction could be seen as an encouragement for landlords to sell up which will create a lot of worry for renters.

This will help you free up more money to put towards your essential expenses and help you manage your finances more effectively.

Furnished holiday lets (FHL)

The FHL tax regime relates to short-term rental properties that are available to be rented out for 210 days of the year and are actually rented for 105 days. The tax regime means that landlords can deduct the full cost of their mortgage interest payments from their rental income. Mr. Hunt announced in his budget that this was being abolished in April 2025 due to concern that it was creating a distorted vision that there were not enough properties available for long-term rent.

What does this mean to me?

This simply means that from April 2025, this tax regime will no longer exist so you will not be able to deduct mortgage interest payments from rental income. This will have significant impact on those operating holiday let businesses.

Is cash still king?

You will have worked with your financial adviser from outset to ensure that your assets are invested in a way that are most likely to meet your future financial objectives.

As we will examine further, for the majority of clients this involves a portfolio of equities and bonds. Cash is put aside for short term requirements or for emergencies and you will have discussed how much is appropriate for this, bearing in mind your individual circumstances with your adviser. This provides surety of your capital, but doesn't account for the impact of inflation.

Current Interest Rate & Inflation

After a period of low interest rates following the global financial crisis (GFC) in 2008, we now have a level of interest rates that offer 12-month term deposits of around about 5%.

At face value, this might seem attractive, however, if one considers the current rate of inflation of ~3.4%, then that current deposit rate is only slightly more positive in real terms.

So, by locking up your money for 12 months or more, you are betting that inflation comes down further towards the target inflation rate of 2%.

Consider your immediate financial needs

The cash that is held in a bank account is not 'risk-free', as there is a risk that the rate of inflation may continue to reduce both the spending power of both the interest and your capital.

However, it is crucial to set aside easily accessible money for any unforeseen circumstances and the reality is that cash in a bank account is 'liquid', in that it is easily accessible if needed.

As part of your financial strategy, it is important to set aside roughly three months' worth of essential outgoings in a bank account, to fall back on if needed.

Want to hear more?

It's important to acknowledge that there's no singular path to growing your wealth and that it depends on your financial goals, your risk appetite, affordability and timeline.

Why do private investors tend to sell at the bottom of a market cycle?

As part of the financial advice process, your financial adviser will no doubt speak with you about so-called risk assets, such as stocks and shares (equities), forming part of your long-term investment plan.

They will also discuss with you the risks associated with these assets and how the risks can be mitigated, depending on your tolerance for volatility (the fluctuations in the value of your investments over time).

Alongside this, they will stress that your investment strategy must be 5+ years and, crucially, the importance of sticking to the agreed plan (unless personal circumstances dictate otherwise).

Unfortunately, many private investors, particularly those without an adviser, can sometimes react to stock market volatility at the wrong time – which results in losses being realised.

Professional investors, however, can behave differently to private investors.

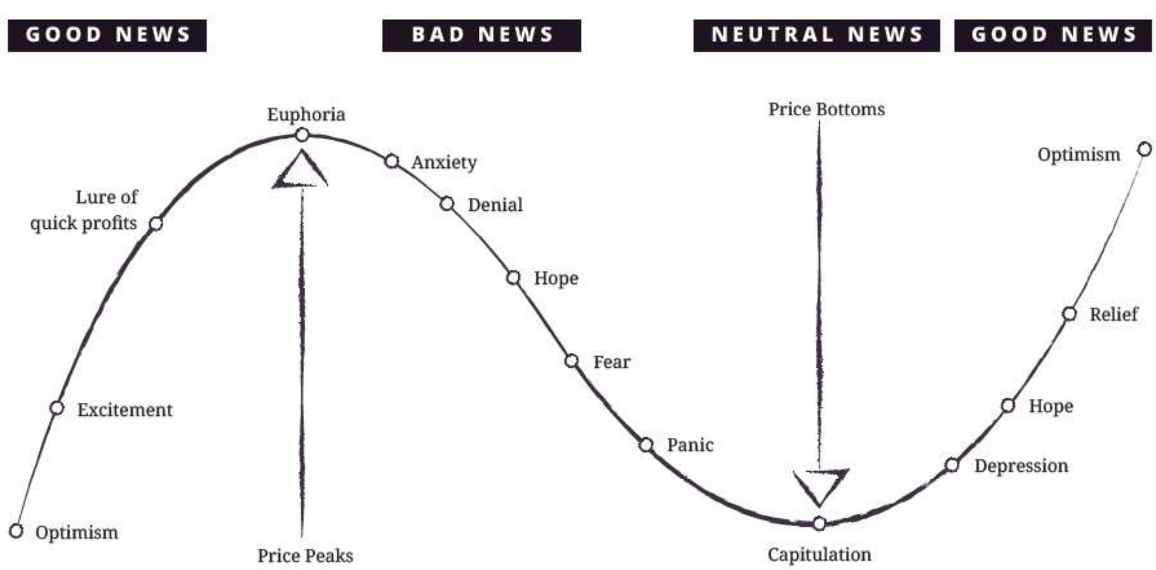
This is because they are trained in their field, generally have access better information and, therefore, are better equipped to handle their emotions during the extremes of stock market cycles.

In the below chart, you can see how emotions and decisions can be affected in line with the stock market cycle.

So, what is the relevance of a financial adviser?

1. They will make sure that your portfolio matches your tolerance for risk in the first place
2. As professionals, they generally have access to more information sources than their clients
3. They are able to ignore mainstream media 'noise'
4. They are less emotive in relation to investments as a result, which can help to prevent clients chasing returns in extreme 'up' markets...
5. ...as well as stopping them realising losses at the wrong time during 'down' markets i.e. helping them to overcome the fear accompanying market falls

In summary, they are able to help clients cope psychologically and 'stick with the plan'!



SCOTTFYFFEWM.CO.UK
INFO@SCOTTFYFFEWM.CO.UK

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