

# CLIENT UPDATE

21st December 2020

## Reasons to be cheerful!

Dear all,

We finally come to the end of what, for pretty much all of us, has been a challenging year. I think I'm not alone in saying good riddance to 2020.

From an investment viewpoint, this year has been a real rollercoaster. When the first lockdown began in March, the major markets fell 35% with the biggest drop occurring on 23rd March. Subsequently, we have seen different markets react in different ways. It started with a big equity market rally, as news began to feel more positive and markets took a longer-term view. We saw commodity prices for silver and gold increase thanks to economic worries and simply, a lack of supply. At the start of 2020, it seemed impossible to imagine that interest rates could fall but fall they did. Now we sit in a position with base rates close to zero and discussions that we could potentially see negative interest rates in the future.

Looking at the major markets, the FTSE 100 will finish the year around 10% down, unless we have a major rally in the next few days. On the other side of the pond, the S&P 500 has not only recovered any of its losses but is now over 12% up year to date, driven mostly by technology stocks. Facebook, Amazon, Apple, Netflix and Google make up over 15% of the S&P 500's performance of the overall market. These stocks have thrived with global lockdowns - people's increased want for television content and doorstep deliveries. At the other end of the spectrum, the share price of banks, airlines and many energy stocks have fallen like a stone and are still yet to recover.

**Emerging markets, in particular China, have thrived during this time. There is little doubt that China has dealt with the situation quickly and efficiently, meaning their economy has bounced back while most of the world is still figuring out their next steps.**

China will achieve GDP growth of over 2% this year and is forecast for 10% next year. Pretty much every other country in the world has gone backwards in 2020. For anyone holding large sums of cash, it seems unlikely that interest rates will provide a real return for quite a long time. It is hard to find an interest rate anywhere near 1%, even when trying to fix the rate for a year. The money being printed by global governments to deal with the pandemic will eventually need to be repaid, and therefore it seems logical that they will all try to keep interest rates as low as possible. When the money supply is ready for re-balancing, governments may struggle to do so and therefore may look to continue to prop up. This may mean that the heady days of five or six percent base rates for cash savers could be a thing of the past.

I titled this client update 'reasons to be cheerful' because there does appear to be some light at the end of the tunnel.

**The Scientific community have excelled themselves and the Pfizer vaccines are now being administered, with those produced by Oxford and AstraZeneca hopefully only a few days away from formal approval.**

From a stock market view, there are issues involving Brexit and despite being at the end of 2020, we still have no definite answers on this topic. If we reach a no deal, there will inevitably be some ripples in the value of sterling, perhaps causing markets to be a little jumpy for a while. However, in the short term I do not believe a no deal would be catastrophic for investors' money. No-one however can predict the long-term ramifications of leaving the European Union, whichever side of the fence you sit on

As touched on earlier, the UK market lags not just the US, but largely every major market in the world. This is due to the make-up of our stock market which is very reliant upon banks, energy companies and hospitality. I am sure however, that when we reach our "new normal" the UK economy will bounce back strongly. COVID-19 has forced many out of work, and I suspect there will be a few more before we are out of this, but I do believe we are quite a resilient bunch. When the bars and restaurants have been reopened fully and we can all go on holiday, comfortable in the knowledge we will not have to quarantine on our return, people will start spending again, and the UK economy can start to move forward.

It also seems that despite a very difficult year, many investors have seen positive returns in their portfolios, much to their surprise! Now with the Vaccine on the way, my hope would be that we see growth around the world in 2021 and that markets can move forward again.

Other areas that we need to be looking at in 2021 are potential changes to the tax regime. It has been discussed that capital gains tax may change and we could see a wealth tax come in at some point in the future. I believe there is also a possible review of pension contribution tax relief, with the higher relief of 40% or 45% coming down to a flat rate of maybe 25%. The government are not going to increase Income tax so will have to find other ways of increasing revenues. This might not be for another year with the Virus still very much in play, but changes to tax are likely to be on the way.

Lastly, I wanted to notify you of a questionnaire I will be sending out in the New Year regarding your thoughts on how you invest money and whether an alternative option might be of interest. You may have heard of the term ESG (Environmental, Social and Governance), in which there has been a wave of new investments launched in recent times that look to try to invest client's money in a more socially aware and impactful way. I have spent quite a lot of time looking at this subject over recent weeks and am close to putting together a proposition for clients on this basis. However, before I do anymore, I would like to know your thoughts on the subject. These could range from "never heard of it" and "do not care", to strong views on how your money is invested from an ethical view.

Please can I ask you to complete the questionnaire when received; I would be very grateful! I will look to summarise the findings and put together any thoughts on it. All answers will be anonymous.

**From my team and I, all that is left is to say is a big thank you for being a client of King Financial Planning. On 1st January we will be a year-old business – my what a year it has been! I hope you have a fabulous and safe Christmas and New Year.**

**As ever if you need anything just ask!**

*James*