king
FINANCIAL PLANNING

CLIENT UPDATE

KING FINANCIAL PLANNING
MAY 2023

Dear all,

Since my last update in January, markets have settled down (compared to 2022 anyway). In January I was optimistic that we would have a positive 2023 and so far this optimism has been justified. Both world equity markets and bond markets (fixed income) have provided positive returns by and large.

On the economic front, we have seen inflation slowly start to fall around the world. The UK seems to be a little behind the curve regarding inflation with our rates still at 10%. However, there are signs that this is starting to fall with the supermarkets starting to reduce prices on food and the oil price now under $80 a barrel compared to $120 a barrel just over a year ago.

With inflation not falling as quickly as everyone would have liked, it seems to me that the Bank of England felt forced into raising interest rates. I'm not sure how much this has helped reduce inflation, as the reason we had it was plainly due to the war in the Ukraine. The knock-on effects of energy prices going so high has meant that everything has increased in price, and this takes time to fall as we have seen.

Having just seen the base rate go to 4.5%, depending on your circumstances, this can be viewed as a positive or a negative. If you are a saver, it means you should be receiving interest of somewhere between 3% to 4% gross interest on your money. However, for mortgage rates there has been a sharp increase with the standard mortgage rates going over 7% (Nationwide 7.74% as an example). This has greatly slowed down the housing market with newbuild developments all over the country being scaled back or even stopped. The government over recent times have made it harder and harder for buy to let landlords to own property. I feel a rethink from those in power is needed as far as their plan for property in this country.

From a tax perspective, we now only have £6000 as a capital gains tax allowance and the band for 45% income tax now starting at £125,000 not £150,000.

On the plus side, the abolition of the lifetime allowance is a real positive for many clients, let's just hope that a changing government doesn't reverse this as playing political football with people's pensions really isn't very fair.

As to the rest of this year, equity markets look fair value, with China opening up and providing more goods and services to the world, this should be a help to reduce global inflation. My view is that we are close to the end of the interest rate rises (maybe 1 more in the UK) and that we could see falls next year. This could provide some positive returns in the bond markets. I am therefore still cautiously optimistic that 2023 will end up being a lot better than 2022 - I appreciate that wouldn’t take a great deal!

James