QUARTERLY ADVISER

QUARTER 3 2024

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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 informed of market updates and discussion topics that keep you informed and reassured that your plans 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.

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Index	Level 31 July	Level 31 August	Change*
S&P 500	5522	5648	+2.2%
FTSE 100	8367	8376	+0.11%
Euro Stoxx 600	518	525	+1.4%
Nikkei 225	39101	38647	-1.16%
Shanghai	2938	2842	-3.26%
US 10 Yr Treasury Yield	4.10%	3.91%	-0.19
UK 10 Yr Gilt Yield	3.96%	4.02%	+0.06
Bund 10 Yr	2.30%	2.29%	-0.01

*all returns in local currency terms

Overview

Looking at the table above, one could be forgiven for concluding that August was a fairly benign month for markets. However, the start and end figures disguise what was quite a volatile month, for both stock markets and currencies alike. It was also a useful reminder about why we do not rush to react to significant market moves when they occur or attempt to time markets.

For several factors discussed in the following update, we saw the most significant one-day fall in the Japanese stock market since the 1950's, we saw the former darling of the US market, Nvidia, fall 15%, before recovering, and the US dollar decline by over 2%. Volatility levels spiked to those last seen in the early days of the COVID pandemic. We saw similar volatility in Europe. However, markets soon regained their composure and, as the returns show, the declines were short lived, although the fall in the dollar did dampen the returns from the US.

Once of the catalysts for these moves was caused by a sudden surge in the value of the Japanese yen, following a surprise interest rate increase from the Bank of Japan (BOJ). This had an impact on the so-called Carry Trade*, which in turn caused ripples across other asset classes. However, soothing noise from the BOJ about the importance of maintaining stability assuaged fears that further such surprises were unlikely.

Other than the resilience of equity markets, a very encouraging development was the behaviour of bond markets during the short period of equity market volatility.

Historically, bonds were seen as a dampener of risk in portfolios i.e. being stable when equities were struggling, but since 2022 this characteristic has been challenged by the rapid increase in inflation and interest rates. However, during August we saw bond markets reprise their 'safe haven' status in times of uncertainty, rising as equities fell.

**The Carry Trade is where you borrow money in the currency of a country where interest rates are low and invest it elsewhere for a better return e.g. the US, where interest rates are around 5% versus Japan's rates of less than 0.5%. However, this 'low risk' trade was adversely affected when the unexpected rise in Japanese interest rates caused the yen to suddenly surge against the dollar, which worked against borrowers of yen. To cover losses, traders may have had to liquidate positions in the yen or other asset classes, further contributing to downward pressure on prices.*

US

The US economy was certainly at the forefront of investors' minds during August, as attention turned from inflation to growth. We saw inflation numbers continue to move closer the US Federal Reserve (Fed)'s 2% target, however, significantly revised jobless numbers seemed to indicate that there is now a risk of the US economy slowing down and slipping into recession.

The timing of this coincided with the sudden rise in the yen and caused US markets to fall quickly early in the month. However, conciliatory noises from the Fed over the direction of interest rates and stabilisation of the yen, allowed the main market to rebound significantly, ending the month in positive territory.

This recovery was further assisted by comments by Jerome Powell while at the central bankers' symposium at Jackson Hole. He made it very clear the direction of travel for interest rates was down and that this would commence in September. Crucially, he also stated that the Fed 'will do everything it can' to make sure the labour market remains strong, given it was the latter that markets now seemed to be focussing on. These comments fuelled speculation that rates would possibly be cut by as much as half a percent, which turned out to be the case at the September meeting.

On the sector front, we saw increased volatility in technology stocks, as investors worried that the AI led boom was running out of steam. The technology stock rich NASDAQ index, which had been leading returns this year, underperformed the main market. Mid-sized and small company-based indices also underperformed, as they are viewed as more susceptible to a slowdown in demand in the domestic economy. Meanwhile, we saw the US dollar continue to decline against a basket of currencies, in anticipation of rate cuts.

Source: Bloomberg

On the political front, we saw vice-president Harris' polling advance in the US presidential election race, following a strong performance at the Democrats' convention.

At this stage, neither candidate has made any reference to addressing the burgeoning US budget deficit, which may be a key determinate in the US government bond market later this year.

Europe

Optimism over the prospect for further rate cuts, following a three-year low Eurozone inflation number of 2.2%, drove European markets higher, with the Dax reaching an all-time high towards the end of the month. Some might consider this a paradox, given the parlous state of the German economy, evidenced by VW announcing that they may close factories for the first time in their history.

However, markets are always looking forward, so the prospect of lower rates may have had a positive influence, although the continued decline in oil prices also probably helped, given the German economy's reliance on heavy manufacturing. France's stock market continued to trade below its pre-election level, as President Macron wrestled with the problem of creating a coalition that stands a chance of functioning.

UK

Given its lack of exposure to technology stocks, the UK market held up relatively well during the bout of volatility early in the month. The economy seems in reasonable shape and we saw positive progress on the health of both the UK's service and manufacturing sectors, with better than expected Purchasing Managers Index data (above 50 is a sign of positive growth).

Source: FT 22/08/2024

Inflation data seems to continue to support the Bank of England's decision to cut interest rates. However, with above inflation wage increases in the public sector being signed off by the new government, wage inflation, which was already stickier than goods inflation, will no doubt be a significant factor for the Monetary Policy Committee (MPC) to consider. Unsurprisingly, unions in sectors that were not recipients of these rises already seem emboldened to demand higher wages in the future.

This is perhaps partly why the UK gilt market lagged the US and Europe during the month, and as Andrew Bailey remained ambiguous about the direction of interest cuts while at Jackson Hole. Following the MPC's decision to hold interest rates at 5%, we await the October UK budget with interest, given the possibility of significant changes to capital taxes.

Japan

The aforementioned volatility generated by the strength of the yen, culminated with a double-digit downward spike in the Nikkei index in one day. Some of this can be attributed to the unwinding of complex trades around the yen, so market volatility quickly normalised after the Bank of Japan's governor, Mr. Yueda, made a statement saying that disorderly markets were not their goal.

This seemed to suggest that they wouldn't be springing surprise rate cuts on the market in the immediate future and this was indeed confirmed at their September meeting. Regardless, they will have to balance the desire to normalise inflation and interest rates while dealing with a slowing economy..

Asia and Emerging Markets

The economic outlook for China remains poor. Retail sales, for instance, are 9% weaker than their pre-pandemic trend. The Chinese are ramping up exports from state-subsidised enterprises to compensate, and their inexpensive goods are causing disinflationary pressures in the west. The economic outlook for China remains poor. Retail sales, for instance, are 9% weaker than their pre-pandemic trend.

The Chinese are ramping up exports from state-subsidised enterprises to compensate, and their inexpensive goods are causing disinflationary pressures in the west. The Chinese currency has weakened to assist exports but over capacity remains a problem with western tariffs creating headwinds to progress. Of course, the duo of structural problems remains unresolved, a burgeoning debt problem linked to a bankrupt property sector once responsible for as much as 25% of GDP and a shrinking and ageing population making economic expansion difficult, but simultaneously explaining heavy investment in technology and notably artificial intelligence.

Further stimulus is undoubtedly required by the People's Bank of China. America, Canada, Europe, and the UK are imposing trade tariffs on Chinese electric vehicle (EV) and solar imports, creating significant export challenges for China. In response to these tariffs, China may look to offload its surplus EV and solar inventory in Asia and Africa at lower costs. While short-term deflationary pressures may benefit consumers, there could be long-term economic implications. Elsewhere in Asia and Latin America, the weaker dollar provided a stimulus for those markets with higher levels of dollar denominated debt, producing decent levels of return on a local currency basis at least.

Outlook

Historically, September tends to be a negative month for stock markets, but this seasonal trend was upended by the prospect of the rate cut in the US, which provided a much needed uplift for Technology stocks. Further progress will likely be dictated by news on the economy rather than the immediate prospects for interest rate cuts. The liquidity backdrop remains favourable, but markets will no doubt be keeping a close eye on developments in the US presidential election race, as we move towards November.

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

As your circumstances change, so should your retirement plan

Your retirement plan is not a static document; it's a roadmap that should adapt to the twists and turns of life.

Just as life is full of changes, from career shifts to family milestones and unexpected events, your retirement plan should be flexible enough to accommodate these fluctuations. It's essential to recognise that the retirement goals and financial strategies that you set in your 20s or 30s may not perfectly align with your circumstances in your 40s, 50s or beyond.

This adaptability ensures that you stay on track to achieve financial security and the lifestyle that you desire in retirement.

Whether it's adjusting your savings rate, reassessing your investment strategy or reevaluating your retirement age, being proactive in updating your plan can help you navigate the uncertainties of life with confidence.

By acknowledging that change is inevitable and embracing the need to adjust your retirement plan accordingly, you can better position yourself to overcome challenges and ultimately enjoy a fulfilling retirement. Remember, the key is not just to create a retirement plan but to actively manage and update it as your life unfolds.

Changes in income and expenses

A significant change in income, whether it's an increase or decrease, can have a substantial impact on your ability to save for retirement.

If your income increases, you should consider allocating a portion of the additional funds towards retirement savings vehicles like your workplace or personal pension as well as any ISAs you have, to accelerate your progress towards your goals.

Conversely, if you experience a decrease in income, you should reassess your budget and retirement contributions to ensure they remain feasible and aligned with your financial situation as you should be ensuring that your current essential living expenses are covered first.

As you transition through different life stages, your spending habits and financial obligations may change. Review your budget periodically and adjust your retirement plan to reflect any changes in expenses, such as paying off a mortgage, downsizing your home or funding private or further education tuition for children or grandchildren.

Life events

Major life events such as marriage, divorce and the birth of a child can alter your financial priorities. After experiencing such events, take the time to revisit your retirement plan. With any of the above, your estate planning will change as you will want to update your will to reflect your change in circumstances and your beneficiaries.

As much as we would all like to think that we will live a long and healthy life, that is sadly not always the case and death can come suddenly. Therefore, it is essential to make sure that your will and any other estate planning documents are up to date, as soon as your circumstances change.

Health considerations

Health issues can impact your ability to work, earn income and thus save for retirement. In your 20s you might have planned to spend retirement traveling and be saving for such, however, if you are diagnosed with a health condition that requires you to retire on medical grounds, which can happen at any age, your initial retirement plan may no longer be feasible.

If you have known health conditions in your working life that could require you to have specialised care when you are in retirement, you may also want to allocate additional funds into your retirement fund to cover potential long-term care expenses.

Retirement goals

For whatever reason, your retirement goals may evolve over time or as you approach retirement age and reassess your priorities. Perhaps you decide you want to retire early to care for a grandchild or maybe you reach retirement age and decide that you aren't quite ready to give up the work you love just yet.

Whether you decide to retire earlier or later than initially planned or if you have new aspirations for your retirement lifestyle, it is important to adjust your retirement plan accordingly to ensure it aligns with your current goals and objectives.

Want to hear more?

Whether you're just starting out in your career and want to know how to save for retirement or you have been saving for a number of years and need a review, we are on hand to discuss your changing needs as you journey through retirement.

**The information provided in this article is for informational purposes only and should not be considered financial advice. Tax regulations and allowances can change, and individual circumstances may vary. Please consult a qualified financial adviser for personalised guidance regarding your retirement planning.*

You insure your car and your house...why not yourself?

We all know the importance of insuring against the value of a car, a house, or a holiday for example, but safeguarding against the possibility of losing an income is a lifeline that can sometimes be overlooked and is crucial to address within your financial planning strategy.

If you were unable to work due to sickness, injury, or accidents, income protection can provide you with a steady income stream, ensuring your bills are paid and your lifestyle is maintained even when life throws unexpected challenges your way.

But how does it work?

Income protection policies typically pay out a percentage of your earnings, usually between 50% and 70%, but which is dependent on the policy. There is a then a 'waiting period', also known as the deferred period, which is the time when you stop working and when the policy starts paying out. It can range from a few weeks to 2 years, with longer waiting periods often resulting in lower premiums.

Remember, income protection insurance is distinct from critical illness cover. While the latter provides a lump sum payment for specific conditions, income protection offers ongoing support until retirement or recovery.

Benefits of Income Protection

One key benefit is the peace of mind it brings knowing that you won't need to dip into savings or investments, alleviating money worries during recovery periods and protecting your future financial wellbeing

This means that you can stay on track with long-term goals, such as pension contributions or your children's education funds.

Income protection also helps manage essential expenses like mortgage payments, utilities, and groceries. With statutory sick pay at just £116.75 per week for a maximum of 28 weeks, this insurance fills a crucial gap in financial security.

Policy Considerations

Income Protection policies typically have no cash in value at any time and cover will cease at the end of term. There are several elements that will affect premium levels.

Age, health and lifestyles play significant roles, with older or less healthy individuals paying more, but your occupation (and whether it is deemed to be 'risky') is also a key consideration, as well as if you choose an extended policy length.

In these circumstances the coverage will be more, but a higher price. The deferred period, which is the time between stopping work and receiving benefits, also impacts cost.

But the reality is that the most important consideration to make when choosing a policy, is to ensure that the policy covers as many eventualities as reasonably possible.

This means not focussing on the premiums (or the price) but on how it fits into you're your long-term financial strategy, by ensuring the protection of you and your loved ones.

How to tackle cyber risk and safeguard your business

In today's digital landscape, cyber risk poses a significant threat to businesses of all sizes. As technology advances, so do the sophisticated methods employed by cybercriminals to exploit vulnerabilities in your systems.

From data breaches and fraud to phishing attacks and social engineering, the potential threats are numerous and ever-evolving. It's crucial for you to understand and address these risks to protect your organisation's sensitive information, financial assets, and reputation.

To safeguard your business effectively, it's important to explore and implement practical strategies to help you tackle cyber risk and ensure the long-term security.

This involves assessing your current risk landscape, implementing robust security measures like encryption and firewalls, and developing a solid incident response plan. By taking proactive steps to strengthen your defences against cyber threats, you can significantly reduce the likelihood of falling victim to malicious activities.

Assessing Your Organisation's Cyber Risk Landscape

To tackle cyber risk effectively, you need to understand your organisation's unique threat landscape. Start by identifying your critical assets - the 'crown jewels' that are essential to your business objectives.

These might include customer data, financial records, or proprietary software. Create an inventory of all physical and logical assets, including hardware, software, and data stores. Develop a network architecture diagram to visualise interconnections and potential entry points for attackers.

Next, identify potential threats to each asset using free resources like the Mitre ATT&CK Knowledge Base. Consider the likelihood and impact of various risk scenarios, ranking them on a scale of 1 to 5. Use this information to create a risk matrix, prioritising scenarios above your agreed-upon tolerance level for immediate action.

Remember, assessing your cyber risk landscape is an ongoing process. Regularly review and update your risk register to ensure you always have an up-to-date account of your cybersecurity risks.

Implementing Robust Cybersecurity Measures

To tackle cyber risk effectively, you need to implement robust cybersecurity measures. Start by focusing on access control, a crucial component of IT security. It regulates who can view, use, or access resources in your computing environment, minimising security risks.

Implement strong authentication methods, including password-based, biometric-based, and certificate-based options. Follow this with authorisation, granting access based on predefined privileges.

Next, consider advanced threat detection techniques. These include sandboxing, which isolates suspicious files in a controlled environment, and behavioural analysis, which monitors user and network behaviour to identify anomalies. Automated monitoring, using AI and machine learning algorithms, can analyse data in real-time to detect potential threats.

Developing a Comprehensive Incident Response Plan

To tackle cyber risk effectively, you need a solid incident response plan, whether that's through the recommendation of a third-party company, or depending on capacity and expertise, managed by internal staff.

Start by assembling a diverse team with IT security professionals, analysts, and legal representatives. Define clear roles and responsibilities, including a team leader to coordinate activities and a communications liaison to manage stakeholder interactions.

Create detailed playbooks for various attack scenarios, such as ransomware or phishing, and regularly update them with lessons learned.

Establish clear escalation paths and thresholds to ensure timely involvement of senior leadership when necessary. Leverage automation tools to speed up response times and reduce human error. Remember to regularly test and review your plan to identify weaknesses and keep your team sharp.

By developing a comprehensive incident response plan, you'll be better equipped to minimise the impact of cyber-attacks and protect your organisation's assets and reputation.

Cyber Risk FAQs:

How can my business protect itself from cyber threats?

- Secure your networks and databases
- Educate your employees on cybersecurity
- Establish clear security policies and practises
- Discern between legitimate and fake antivirus notifications
- Implement email and web filtering alongside robust firewalls and network access control.
- Ensure that you safeguard your passwords
- Avoid using personal devices where possible
- Securely delete sensitive information when it is no longer necessary

What strategies should I use to defend against cyber-attacks?

- Always be cautious of suspicious links, attachments, and downloads
- Use strong passwords and enable multi-factor authentication where possible
- Ensure secure internet communications
- Keep your anti-virus software up to date
- Promptly report any suspicious activities to your IT department.

How to build your credit score: Tips to boost your rating

Your credit has an influence on your ability to secure loans, obtain favourable interest rates, and even maximise the opportunity to rent a house or a flat.

Understanding how to build credit score is essential for anyone looking to improve their financial standing. Whether you're starting from scratch or aiming to boost your current rating, maintaining healthy credit habits will enhance your creditworthiness and have significant influence on various aspects of your financial life.

Experian	Very Poor	Poor	Fair	Good	Excellent
	0 – 560	561 – 720	721 – 880	881 – 960	961 - 999
Equifax	Poor	Fair	Good	Very Good	Excellent
	0 – 438	439 – 530	531 – 670	671– 810	811 - 1000
TransUnion	Very Poor	Poor	Fair	Good	Excellent
	0 – 550	551 – 565	566 – 603	604 – 627	628- 710

Examples of some of the credit brackets from three of the main providers in the UK.

Understanding Your Current Credit Score

Your credit score is typically a three-digit number which reflects your creditworthiness. It's based on information in your credit report, including your payment history, amounts owed, and length of credit history.

Lenders use this score to assess the risk of lending you money. A higher score suggests you're more likely to repay debts on time. It has an influence on your ability to get credit cards, loans, mortgages, and even mobile phone contracts.

Different companies may calculate your score differently, so it's worth checking your score with multiple providers. The Experian Free Credit Score, for example, runs from 0-999. Remember, there's no 'magic' number that guarantees approval from lenders. However, a score above 670 is generally considered good.

To build your credit score, you need to establish a credit history. One of the most effective ways to do this is by building and maintaining responsible credit habits.

To do this you need to adopt sustainable habits that boost your rating while mitigating risks.

This includes paying your bills on time, setting up automatic payments or reminders to ensure you never miss a due date and keeping a close eye on your credit utilisation ratio, which is the second most important factor in determining your score.

Aim to keep your overall credit utilisation below 30%, with under 10% being ideal. To achieve this, pay off your credit card balances more than once a month or request a higher credit limit.

10 steps for greater credit control

1. Pay More Than the Minimum

Always aim to pay off your balance in full each month to avoid interest charges. If that's not possible, try to pay more than the minimum to reduce debt faster and minimise interest.

2. Track Your Spending

Regularly monitor your credit card usage to avoid overspending. Use apps or your bank’s online tools to keep tabs on your purchases in real-time.

3. Keep Credit Utilisation Low

Keep your credit card balances below 30% of your available credit limit. This helps maintain a healthy credit score and reduces the risk of debt.

4. Set Payment Reminders or Auto-Pay

Avoid late fees by setting up payment reminders or enrolling in auto-pay for at least the minimum payment. Missing payments can hurt your credit score.

5. Limit the Number of Credit Cards

Don’t open too many credit cards at once. This can tempt you to spend more and could lower your credit score if you're not managing them carefully.

6. Check Your Credit Report Regularly

Stay on top of your credit by reviewing your credit report at least once a year. This helps spot errors and prevent identity theft.

7. Know Your Interest Rate (APR)

Be aware of your credit card’s interest rate (Annual Percentage Rate or APR). The higher the APR, the more expensive carrying a balance will be, so prioritise paying off cards with the highest rates first.

8. Avoid Cash Advances

Cash advances often come with high fees and interest rates, sometimes higher than your regular APR. Use your credit card for purchases rather than withdrawing cash whenever possible.

9. Use Rewards Wisely

Credit card rewards can be beneficial, but don’t overspend to earn points or cashback. Only spend what you can afford to pay off in full.

10. Avoid Impulse Spending

Take time to evaluate whether a purchase is necessary. If you find yourself making impulse buys, consider leaving your credit card at home or setting a waiting period before making large purchases.

The upcoming Budget: Some ‘pre-emptive’ advice

Following the Government’s discovery of an alleged ‘£22bn black hole’ in public finances’ and the Prime Minister’s warning of a ‘painful’ upcoming Budget, there are strong indications that tax increases are on the horizon.

Your Financial Adviser is there to ensure that you remain in the strongest and safest possible financial position and they will therefore base any advice on current taxation rules and legislation, until a point at which definitive changes are announced. This is to avoid any changes to your financial plan being based on speculation.

Often, when changes are announced, some time is allowed for planning and making sufficient changes to personal finances and will usually take effect at the beginning of the next fiscal year (1 April for corporation tax; 6 April for income tax).

As the Budget is set to be announced on 30 October, it is preferable to wait until then to determine any changes that will be made.

Here when you need us.

We understand that that legislative changes can cause concern and uncertainty and when it comes to your financial future, nothing is more important than feeling reassured that you are in safe hands.

If you would like to talk to the team about any of your concerns around the upcoming Budget, please don’t hesitate to get in touch.

Financial Ombudsman Service (FOS) warns of high level of investment scam related complaints

The Financial Conduct Authority (FCA) has commented historically about the importance of advisers raising consumer awareness of investment scams to help combat fraud and protect consumers, particularly those who may be vulnerable, for example because they're in financial difficulty.

The Financial Ombudsman Service (FOS) has recently reported that fraud and scam complaints are at their highest ever quarterly level.

For awareness purposes, relevant points in the FOS report include:

- A significant rise in complaints where people spot investment opportunities on social media and then inadvertently pay fraudsters using their debit or credit cards.

- Card payments, unlike bank transfers, are not covered by the Contingent Reimbursement Model (CRM) code or Payment Systems Regulator (PSR) rules.

- More cases of multi-stage fraud where funds pass through several banks before reaching the fraudster. This is particularly prevalent in cryptocurrency investment scams as well as 'safe account' scams – where people are cold called by fraudsters posing as a trusted entity, such as their bank, and persuaded to transfer money to another account.

- The FOS highlights the importance of undertaking appropriate research and due diligence if planning on investing, particularly in investments found on social media. This includes ensuring the provider is regulated by the Financial Conduct Authority (FCA).

If you are ever unsure about something you have seen on social media, your financial adviser would be happy to discuss anything that you have seen online, and immediate support and information is available through the FCA website at ScamSmart - Avoid investment and pension scams | FCA and via MoneyHelper at How to spot an investment scam | MoneyHelper.

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IMPORTANT INFORMATION