



CHN

FINANCIAL CONSULTANCY

ISSUE 24

# *Client Eye*

BRINGING YOU  
THE LATEST NEWS  
AND VIEWS FROM  
ACROSS THE  
FINANCIAL SECTOR



## **WELCOME** YOUR WINDOW ON FINANCIAL ISSUES

Welcome to our Summer Edition of Client Eye. It's been a busy summer here at CHN Financial Consultancy; we've experienced significant growth within our team, had one of our colleagues win a fantastic award and hosted our annual Charity Golf Day.

### ANNUAL CHARITY GOLF DAY

The 2019 CHN Charity Golf Day took place early July at Garforth Golf Club, Leeds. We had a great turn out, with around 80 golfers in attendance which helped make the event a great success and help raise valuable funds for our two chosen charities this year, The Memusi Foundation and MacMillan Cancer Support.

We'd like to express our sincere thanks to everyone who took part and helped raise money for two very worthy causes.



### **Award Winning Staff**



Being shortlisted for an industry award is quite an accomplishment in itself, but when you walk away the winner, well that's something quite extraordinary. Which is exactly what happened to our Finance Manager Gemma Close, who walked away with the 'Rising Star of the Year Award' at the Annual AAT Conference, earlier this year.

Having worked at CHN since 2014, Gemma has gained a wealth of knowledge and experience which has helped her to work her way up through company to recently become our Finance Manager. We are thrilled that she has won this amazing accolade and are incredibly proud of her development and performance at CHN.



### **IMPORTANT**

If you don't have a financial review, we are unable to confirm the ongoing suitability of the product/s you have in place.

# COMPANY GROWTH – NEW STARTERS

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We've been going from strength to strength throughout 2019 with seven new team members joining the CHN family. From marketing and finance to business support, we'd like to introduce them to you.

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## Angela Wigley

### ROLE WITHIN CHN:

Financial Assistant

### BEST THING ABOUT WORKING OR CHN SO FAR:

The support from my colleagues since joining CHN has been fantastic. Even though I have only been at the company for a few months, I have expanded my knowledge and developed within the role to help within the finance department.

## Gurpreet Singh

### ROLE WITHIN CHN:

Business Support Assistant to Andrew Askwith

### BEST THING ABOUT WORKING OR CHN SO FAR:

The amount of knowledge and experience I am picking up from Andrew, Vicki and the colleagues around me. This is helping to me gain the knowledge needed to pass the Financial Advice exams and to reach my goal in becoming a financial adviser. Also, the CHN team are very welcoming and whenever I need support everyone is willing to help me.

## Morgan Seddon

### ROLE WITHIN CHN:

Business Support Manager to Sophie Thornhill & Peter Simpson

### BEST THING ABOUT WORKING OR CHN SO FAR:

After being here only a few days I feel settled in with the team been fully approachable in regards to support. Asking questions constantly, along with the patience of the team, has helped me develop my knowledge. CHN's overarching principle is a statement that ensured I am in the correct workplace.

## Louise Sheldrake

### ROLE WITHIN CHN:

Business Support Assistant to Janet Comrie and Sarah Dougal

### BEST THING ABOUT WORKING OR CHN SO FAR:

Being part of the team in the York office, who have given me so much guidance and training in my first few months. I'm looking forward to working with them for many years to come.

## Rebecca Nielson

### ROLE WITHIN CHN:

Marketing Manager

### BEST THING ABOUT WORKING OR CHN SO FAR:

Definitely the people. Everyone has been so friendly and helpful so far. The staff here really embody the company's values and have supported my learning since day one.

## Darinderpal Singh Panasar

### ROLE WITHIN CHN:

Business Support Assistant to Lee Clayton

### BEST THING ABOUT WORKING OR CHN SO FAR:

I have received a lot of support from everyone so far, which has helped make me feel comfortable in my new role so that I can compete the jobs that need to be done.

## Kayleigh Sambhi

### ROLE WITHIN CHN:

Business Support Manager to Sophie Thornhill & Peter Simpson

### BEST THING ABOUT WORKING OR CHN SO FAR:

The friendly and supportive people, which makes a good working environment.

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# ARE THE BEST THINGS IN LIFE REALLY FREE?

**Recent research<sup>1</sup> shows that many of life's most enjoyable events come with a hefty price tag. The research calculates that going to university, buying a house, getting married, having two children and then retiring could, on average, add up to £566,659 over the course of a lifetime. This is a huge sum and illustrates the need for careful planning.**

## **Separating 'wants' from 'needs'**

Many people believe that the key to meeting financial goals is to identify what is most important to you. For instance, whilst you might want to eat out several times

a week; affording a home of your own, or enjoying a comfortable retirement, might mean cutting down on these nights out.

The problem is that we can all find ourselves trying to save for multiple goals at once and this can feel like an almost impossible task. This is where taking financial advice can really help. We will be able to assist you in putting together a financial plan that addresses both your short and longer-term financial needs.

## **Getting the savings habit**

As a starting point, everyone needs to have some money put away for emergencies like an unexpected bill. This means having some cash that can be accessed quickly. Then it makes sense to think about the bigger and more exciting things in life, and have money saved that steadily builds up for the future. Tax-efficient accounts like ISAs can really

help here and you can invest lump sums or make regular monthly contributions.

## **Whatever your age, plan for retirement**

You should certainly think about your pension savings, even if retirement seems light years away, it will come around quickly enough, and the more you can save now, the longer your money has to grow. If you think about it, failing to save for retirement might mean you're struggling to afford even the basics in years to come.

<sup>1</sup>Royal London, 2019

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Many of life's most enjoyable events come with a hefty price tag

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# WOMEN RISK BECOMING PENSION POOR ON DIVORCE



**There are no hard and fast rules governing how assets should be divided when a couple divorces, although there is a broad starting point of 50:50. However, new research<sup>2</sup> shows that women who divorce can often end up with less than half the property wealth of married couples and less than one third of the average pension wealth. The study showed that the average divorced woman over 50 has pension wealth of £131,000 compared with £454,000 for the average married couple.**

## **Dividing pension assets**

Many people think that on divorce a pension solely belongs to the party who is named on the policy, but that's not the case. A pension has to be considered

along with other financial assets owned by the couple when reaching a financial settlement. Pension assets can be apportioned in various ways:

- offsetting the value of one spouse's fund by transferring a lump sum, or other assets, to the other spouse
- splitting the pension fund into two separate pensions
- arranging that when a pension comes to be paid, a portion goes to the other spouse.

## **Getting the right advice at the right time**

The findings underline the need to get advice when considering how marital assets should be divided on divorce. A pension pot can often represent a substantial sum of money and needs to be considered alongside other major assets such as property.

Post-divorce, it makes sense to discuss your revised circumstances with us. You'll need to reconsider your financial goals,

and review your mortgage, pension and investment plans, plus remake your Will. Reorganising your finances can represent a major step in moving forward to a new life.

<sup>2</sup>Royal London, 2019

***As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.***

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Research shows that women who divorce can often end up with less than half the property wealth of married couples and less than one third of the average pension wealth.

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# MONEY – WHY IT’S GOOD TO TALK

**Do you discuss your finances with your nearest and dearest? In many families, having a frank discussion about wealth still remains a taboo.**

However, with younger people needing to learn the money management skills that will stand them in good stead throughout their lives, and the older generation often requiring help with their finances in their later years, it's important for children and parents of any age to be able to communicate effectively about family wealth issues.

## **Overcoming the barriers**

Some families find it difficult to discuss wealth. It's not uncommon even today for married couples not to know how much money their spouse earns. Well-off parents can sometimes shy away from letting their children know too much about their wealth, in an effort to prevent

them becoming complacent about what they might inherit in the years to come and losing their work ethic. Older people don't always like to dwell too much on the future, finding it difficult and distressing to raise issues like death and inheritance with their loved ones.

However, taking the time to discuss important financial matters with other family members will help to ensure that the right financial plans are in place to safeguard family interests.

## **Here to help**

Openly discussing wealth matters with your family and us can help establish priorities, clarify goals and ensure that plans are put in place to support each generation according to their financial needs. We are increasingly being asked to be part of these conversations, not least because we offer sound practical advice in a dispassionate manner. If you'd like us to help your family, then please do get in touch.

# SCAMS UPDATE – NEW WARNINGS

January saw the introduction of the long-awaited ban on nuisance calls about pensions.

Those who flout the cold-calling ban face a potential fine of £500,000. According to data released by the FCA<sup>3</sup> (compiled by Action Fraud), there was £197 million of reported losses last year.

Pension scams can have devastating outcomes, with fraudsters conning victims out of thousands of pounds worth of savings. Scammers stole an average of £29,000 per victim last year, according to data compiled by the Financial Conduct Authority. The total figure is based on frauds reported; it's thought the actual sum could be substantially higher as many people feel ashamed of being conned and don't report their loss.

## **What to look out for**

Members of the public are still being urged to stay alert, as cold-calling is only one of the ways that scammers use to search out their victims. Pensions remain a tempting target for fraudsters and some will inevitably look to find a way round the ban or simply ignore it altogether.

## **Authorised push payment scams**

These involve fraudsters convincing victims to move money from their bank accounts into the fraudster's account. Often the caller impersonates a bank employee and requests that you move money to another account for your own safety. The caller can be very convincing and will sound as if they are genuinely trying to help you. In many instances victims have been persuaded to divulge their pins, usernames and passwords, something that your bank would never ask you to do.

There have been appeals for government to work with the finance industry to put additional safeguards in place; in the meantime, everyone needs to redouble their efforts to protect their personal financial data.

<sup>3</sup>FCA, Feb 2019



# FINANCIAL ADVICE FOR NEW PARENTS

**Parents can often find their time entirely taken up with looking after the newest member of their family. It's a life changing experience that will have an impact on their finances too.**

## **Planning pays**

For any couple, one of the biggest adjustments is managing on one salary, so working out a budget together will ensure that they have taken care of the monthly overheads. As well as statutory maternity pay or maternity allowance, you may be entitled to other things like tax credits or child benefits, free NHS prescriptions and dental care.

## **Protecting what's important**

Parents want to do what's best for their

children, but many overlook putting insurance plans in place in case anything should happen to either of them. It may be an uncomfortable topic to discuss, but nobody would want to leave their family struggling financially. The monthly cost of a protection plan is a lot less than many people imagine, often no more than a family might spend on a round of coffee and cake on the high street.

## **Saving for their future**

A Junior ISA is a tax-free savings scheme that enables parents to put money aside either into a cash or a stocks and shares account for their child's future. The allowance for the 2019-20 tax year has been increased to £4,368. On their 18th birthday, the child can access their savings.

Those who want to plan even further ahead can open a pension for their child,

saving up to £2,880 per year tax-free. Tax relief on pension contributions at 25% means that the amount actually invested becomes £3,600. When the child reaches 18, they can continue to invest in it and access their pension at age 55.

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It may be an uncomfortable topic to discuss, but nobody would want to leave their family struggling financially

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# FIRST-TIME BUYERS HELP TO PROP UP THE PROPERTY MARKET

Although the housing market has slowed, due in part to the widespread uncertainties surrounding Brexit, there is some good news. The number of first-time property purchases made in 2018 reached 372,100, up by 3% on the 2017 figure. This means that for the first time since 1995, those making their first property purchase represent a bigger share of the market numerically than those making a second or subsequent move (51% to 49%)<sup>4</sup>.



## Stamp Duty cuts

First-time buyers found their property-owning plans boosted by the Chancellor's cut in Stamp Duty announced in November 2017. This means that if they spend £300,000 or less on a property, they won't pay Stamp Duty. If they buy a more expensive property, the first £300,000 will be free of Stamp Duty, provided that the property's price is £500,000 or less. In Scotland, first-time buyers enjoy Land and Buildings Transaction Tax relief that saves them up to £600, whilst in Wales they get no special Land Transaction Tax concessions.

## Help to Buy set to continue

The government's Help to Buy scheme is playing a major role in helping first-timers realise their property goals. Under the scheme, first-time buyers and second-steppers are offered a loan of up to 20% of the price to buy a new-build property of up to £600,000. A London-only version of the scheme provides 40% equity loans.

The 2018 Budget contained details of how the Help to Buy scheme is to operate in the future. Until 2021, anyone taking advantage of a Help to Buy equity loan to boost their purchasing power, can

buy a property worth up to £600,000. Thereafter, and for a maximum of two years, only first-time buyers will be eligible to buy through the scheme, and the maximum property values will be restricted, with differing figures in place around the country to reflect regional house price variations.

## Time to make your move?

If you're thinking of making 2019 the year you buy your first home, it makes sense to get in touch. We can help you make your dream a reality.

<sup>4</sup>Lloyds, 2019



## NEW BUILD OR PERIOD PROPERTY?

**One of the first decisions you need to make when looking for a property is what type to buy. New properties can come with guarantees, light airy rooms, modern fitted appliances and can be energy-efficient and often cheaper to run. Older properties arguably can have more character, be more spacious, and often have larger gardens. Depending on their age, they can be more expensive to maintain, and may not be as well insulated as newer properties.**

### **Something new**

Many people are drawn to new build homes because they like the idea of being the first owners and prefer somewhere

that doesn't require renovating. However, there can be teething problems.

Thanks to the government's Help to Buy scheme, it is much easier, particularly for first-time buyers, to get funding to buy a new home. Some developments provide a choice of fixtures and fittings, so buyers can customise their property to their own taste. If a property is registered with the National House Building Council, it will have a 10-year warranty and protection scheme.

They have the further advantage of no onward chain and can come with part-exchange deals that can speed up the moving process.

### **Something old**

Older properties tend to come with added extras like their own ready-made community and amenities. They can be cheaper than new builds, offer the added charm of period details, and look and feel more individual. They can

offer more scope for extensions and loft conversions, meaning that they can grow with the family.

Getting a survey done on both new and old properties is vital, as it will highlight any defects that could be costly to put right once you've moved in.

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# LIFE INSURANCE – SETTING THE RECORD STRAIGHT

## It's too expensive

Not so. Life insurance is far less expensive than many people imagine. We can help you find a deal that fits your budget and you can always take out additional cover later on.

## I'm too young to need cover

Protection policies aren't just for older people. The younger and fitter you are when you take out a plan, the cheaper the premiums will be. Leave it too long and you could find yourself paying a much higher price.

## I get cover at work – I don't need more

The amount you're covered for might not be sufficient for your needs, and if you change jobs, that will change too. Plus, with your own policy, the cover can be tailored to your specific needs.

## I'm not a breadwinner, so I don't need insurance

The bill for replacing all the services homemakers provide – like cooking, cleaning and childcare – can amount to a hefty sum. If you weren't around to provide these, then your partner could face



considerable additional costs. Many people hope their family would rally round, but raising a family is costly and family members won't have planned for the added expense.

## I don't have kids, so it's not relevant to me

Whilst it's true that there's less need if you don't have a family, how would your

partner manage if you weren't around to contribute to the bills?

## There's too much choice

It's true there are lots of different types of policy, each designed to provide cover for specific risks. That's where we can help. We can find the right type and level of cover to meet your insurance needs and your budget.

## SIDE HUSTLES – WHAT THEY ARE AND WHY THEY WORK



A side hustle is any type of work undertaken in addition to a full-time job. It's often freelance or piecework in nature and provides extra income. It's not the same as a part-time job, which entails working for someone else who governs the terms of your employment and the hours you work. Side hustles often involve doing things that you're passionate about and tend to take place in the evening or at weekends. Data shows that side hustles have risen by 32% over the last decade<sup>5</sup>.

### Exploring new avenues

For those who are considering a change of career direction, a side hustle gives the opportunity to try out new ideas and ways of working. The extra cash generated is often used to bolster savings, a deposit for a home, or a cash reserve that can be used to set up a new business.

Side hustles come in all shapes and sizes, from dog walking, freelance writing, teaching or tutoring, to selling things like handicrafts or clothes. They are proving increasingly popular, particularly amongst women who might want to leave a mainstream career at some point and need a Plan B.

<sup>5</sup> CEBR, Nov 2018



## GENERAL ECONOMIC OVERVIEW QUARTER TWO 2019

**The key economic influence over the quarter has continued to be the trade battles between the US and China, and to a lesser extent Europe, which has increased the downside risks for investors hoping for a continued recovery in global growth data. Added to this, macro-economic policy has shifted from a likely increase in rates in the US at the beginning of the year, to almost no move expected at the beginning of May, to the pricing-in of 75 basis points of reductions by the end of 2019. At the US Federal Reserve's (Fed) June rate setting meeting seven of the committee indicated that they expected a rate cut by the end of 2020.**

After a difficult May, June saw an improvement in markets as they priced in some kind of resolution for the current economic and political impasse. The US earnings season has been better than expected and significant buybacks have supported the advance from the first quarter, as have healthy dividend payments. The global economy has continued to trundle along at modest rates, led in the main by the continued strength of the US. Asia has not been as strong, mainly because of weaker Chinese data, and European data weaker still. This has not been reflected in stock markets this year other than some falls in May as markets remained resilient.

We continue to be in an age of disruption tempered by central bank action to support economies showing signs of weakness. The new neutral, as defined by Pimco in a recent article, is that investors believe that whatever conflict exists (be it political or economic) will not persist for long as central banks stand ready to step in. This was evidenced recently by the Fed pivot and ECB announcements and is why many believe that whilst global growth is tepid, any recession will also be shallow followed by a sluggish recovery. There are, as

always, alternative scenarios to this relatively benign outcome. The most debated relate to the current trade tensions between the US and other economies but mainly China. Should this escalate and cause economic damage to the Chinese economy, a possible reaction is currency depreciation which might result in a global deflationary shockwave. In the longer term the economic rise of China may well cause increasing global tensions as the global power order shifts.

Forecasts for overall global growth have come down in recent months, and this is part of the reason for a possible move to more monetary easing which is being predicted. In the US and Europe the growth rate is forecast to fall by close to 1% which may encourage central banks to act once again.

Overall we have had another positive quarter for global stock markets, unusually supported by bond markets, which has led to strong portfolio returns. It is doubtful that this will continue through the year, although economic conditions look unlikely to change in the immediate future, unless there is an unexpected event or a change in investor sentiment.

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**"The global economy has continued to trundle along at modest rates, led in the main by the continued strength of the US."**

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# EQUITY MARKETS OVERVIEW

The general trend of 2019 has been maintained, although quarter two has been weaker than quarter one. This is partly due to investors taking some profits from the strong first quarter and moving assets into more defensive areas after the tensions in world trade, which have downgraded global growth forecasts. That said, the returns over this year have been very strong – over 13% for the global indices (in £ sterling) with the US continuing to lead the way. The puzzle is perhaps why the equity market and the bond market have both gained ground. Double digit returns for both equities and long-dated treasuries over six months is a rare combination which has previously only occurred during the first half of 1995. Usually equities perform strongly when economic activity is picking up or is seen to be improving, and bonds perform strongly when there is a gloomier forecast for growth or inflation. In theory one of these markets must be wrong, but perhaps the robust performance

of both can be put down to the anticipation of central bank easing in the coming months. In the meantime equities continue to forge ahead, ignoring much of the negative news and sentiment.

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**“This has affected industrial production with the latest June data indicating a fall in output as companies and clients have continued to run down stockpiles accrued in the run up to the March Brexit deadline.”**

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## UK

The UK market has been moving ahead, despite the political and economic pressures being placed on the country by the move towards Brexit. The new political hierarchy is currently being voted on in the Conservative party with the likelihood of the other B word, Boris, taking centre stage.

Like many economies, the UK is moving forwards but only very slowly in terms of economic growth, with multiple distractions delaying inward investment. Perhaps surprisingly, growth is not that far behind other western economies, with the exception of the US. With the growth picture relatively muted the economy is in a more fragile position, although there seems to be little pressure from rising unemployment or inflation to threaten the current status quo. The Bank of England would like to raise rates but is restricted by other pressures as well as the global move to maintain a loose monetary policy. Global trade wars would obviously impact on expansion but markets seem to be ignoring this at the moment.

Domestically, small and mid-cap stocks have suffered from the Brexit effect and if a deal could be reached, it is likely that these stocks would receive a boost, as would sterling, which may then hit the global exporters. In some ways UK companies are on hold until there

is more clarity about leaving the European Union. This has affected industrial production with the latest June data indicating a fall in output as companies and clients have continued to run down stockpiles accrued in the run up to the March Brexit deadline. The PMI has also fallen to 48 in June suggesting further future contraction – this is not entirely due to Brexit factors as a weaker global economy is also affecting industrial production. The focus on capex and business spending highlights the importance of the political environment – business needs a clearer outlook to be able to commit to increased spending. Brexit uncertainty has taken a significant toll on the UK economy by depressing investment and taking GDP growth down from 2% to 1%. There is some light in the consumer sector where demand has been underpinned by a high employment rate and a pick-up in wage growth.

## US

The US economy still leads the world in terms of economic output, and is the strongest growing economy in the West. Current tensions between the US and China have continued to dominate headlines as the President has followed through with his increase in tariffs on Chinese goods during the quarter. Despite this, markets have been resilient for most of the quarter with the exception of May when tariffs cut in, and the







benchmark S&P index rose to 6.75% in sterling terms over the quarter, once again led by the technology sector and growth stocks in general.

The Fed's switch in emphasis at the beginning of the year was a signal to markets that the central bank was likely to be more accommodative in its approach to adjusting the path of rate rises, despite data being supportive of a growing economy. Trade issues and a wider global slowdown were the main concerns and President Trump has always been keen to ensure that the US stock market retains strength as he builds to an election year. The past month has seen a significant shift in interest expectations and markets are now pricing in 75 basis points of rate cuts in the US by the end of 2019, compared with almost no move expected at the beginning of May. At the US Federal Reserve's (Fed) June rate setting meeting seven of the committee indicated that they predicted a rate cut by the end of 2020.

Growth is expected to fall, largely as a consequence of the fading of fiscal stimulus and the disruption caused by trade tariffs. The benefit from tax cuts has now been largely felt and it would seem unlikely that Congress will approve further fiscal stimulus, given that the budget deficit is running at \$975bn (4.5% GDP). Trade issues alone will not derail the US economy but there are other signs that should be considered such as the rate of growth of non-farm payrolls which has been declining in recent months.

## Europe

It may appear that there are very few reasons to be positive about Europe at the moment with a confluence of events driving change both politically and economically – the continued development of nationalistic politics, lower economic growth than other economies, Brexit, and the end of quantitative easing programmes. Add in the uncertainty of global worries and slowing Chinese growth, and this picture is undoubtedly challenging, but not insurmountable, particularly if we see a return of ECB support to debt markets and an injection of capital into the Chinese economy, which has been muted on certain quarters.

Valuations offer opportunities for managers to pick up some bargains in relation to other markets, in areas that may not be expected, such as technology, although there are possible value traps in this approach, particularly in the banking sector.

The markets in Europe, in line with most other western markets, have been positive this year, as they have tended to ignore the global threats that exist today.

## Asia

The economic scrutiny of China is equivalent to that given to the US now it is a huge element of the global economy. The focus on China relates to the ongoing trade disputes between the global superpowers, which has been partly to blame for more subdued global growth forecasts. As we write this update, tensions

have been lifted a little but were very prevalent in the market falls in May. Equally India is now a rising power and has demanded similar focus in recent months as they have gone through another election.

Chinese economic activity and data have been volatile, but the changing timing of the Chinese New Year affects the monthly data in the first quarter. Overall data indicates a slow-down in economic activity and anecdotal evidence of lower numbers of overseas Chinese visitors, and reduced spending by middle class consumers on higher end products, demonstrates that the uncertainty over trade has negatively affected real economic conditions. Chinese exporters have warned that their business is growing at its slowest pace in three years as the trade war takes a greater toll. The latest FT Confidential Research survey of exporters shows that more than a quarter of firms now believe that the trade war is a permanent fixture of relations with the US and not just a passing feature of the Trump administration. The recent Caixian numbers further confirmed that the manufacturing sector in China is under pressure and the FTCR China export index has fallen to a three year low. The Tankan survey of large Japanese manufacturers fell to its lowest level since 2016. This has all had a more volatile effect in the stock market, but overall it was a strong, positive quarter for company valuations.

In India the Modi election victory was very positive for the continuing reform in the economy and political stability. The Indian current account deficit has shrunk in 2019, helped by a lower oil price, which allows for further fiscal expansion. The Indian Reserve bank also signalled further interest rate cuts to boost the economy.

## Japan

The policies of the Japanese government have been relatively effective since Prime Minister Abe took the reins, however Japan cannot operate in a vacuum and the economy is influenced by the trade disputes and the slowing global economy. Both political conflicts and demand uncertainty have an impact on market direction. Without any near-term evidence of inflation or the need to have the Bank of Japan (BoJ) raise rates, there is little to excite market participants.

It is interesting to note that, despite the political mayhem in the United States and in China, and most

recently the Hong Kong protests over repatriation laws, Japan remains relatively stable. Prime Minister Shinzo Abe enjoys unprecedented approval ratings and the government has been in place for six years.

Japan is more than a cyclical story, but the global economy remains a key influence on the equity market. The main risk from the global economy stems from the ongoing US / China trade dispute as Japan's manufacturing and technology sectors stand to lose in the event of any significant disruption to Asian supply chains. Locally, the decision to increase the consumption tax in 2019 – while welcome in terms of long-term stability – has the potential to undermine near-term growth. The government has outlined plans to provide a broad fiscal stimulus to help lower paid workers which will provide some mitigation. Overall, on current valuations and dividend yields, Japan has a strong case to be held in any global portfolio.

## Emerging Markets

Emerging market economies should slow to around 4.4% in 2019 after 4.8% in 2018, but pick-up slightly to 4.6% in 2020. For most of the BRIC economies, we are optimistic that domestic factors can outweigh global problems in 2020. The emerging market area is closely linked to Asia, with the commonality of China across both investment regions, and so the same issues apply with slowing growth and trade disputes still the focus of investor's current considerations.

After a poor May with heightened volatility, markets have recovered in June producing a positive return for the quarter. There has been some encouragement for investors that the trade issues can be resolved since we are close to an election year for President Trump and he will not want to rock the boat ahead of the event.

The region has some advantages in monetary policy – nominal rates are universally in positive territory and in most cases so are real rates. Policymakers are not yet facing the constraint of the zero lower bound, which pushed developed central banks into the realms of QE. Furthermore, existing monetary conditions are not obviously already inflationary. Should the economy require support, there is nothing here to prevent central banks from acting.

Inflation is also a success story in the region overall with a structural shift to lower rates, for example, Vietnam saw rates fall to 2.2%, combined with an



increase in real GDP of 6.7% year-on-year. Turkey is perhaps the exception to this trend, whilst Indonesia has significant growth prospects, particularly as political disruption has been resolved with Jokowi winning another term.

The region continues to have great potential provided that outside factors are stable, and that investors continue to be mindful of trade tensions and slowing global growth.

## Fixed Interests

In the last quarterly review we pointed to a possible reduction in interest rates in the US following the change in stance by the Fed as we entered 2019 – to move away from the pre-targeted path of raising rates. As we move into quarter three, these predictions have moved on to a wider belief that there will be a reduction in rates in 2019. The question is now the degree of this change as more than one cut has been predicted in some quarters. If the tiller needs adjusting, then we may see monetary easing in this form before the end of the year, but the Fed and other central banks do have other options to try and address the slowing of global growth. One option would be to restart QE and perhaps expand it to give it a wider impact. Currently the Fed has limited QE to buying government bonds and mortgage backed securities but the ECB has expanded this and bought corporate bonds and securities debt, whilst the BoJ is buying equities and real estate. At their peak, the Fed and ECB balance sheet were 25% of GDP and 40% of GDP, respectively. The BoJ and Swiss National Bank (SNB)

show that central bank balance sheets can rise a lot further, exceeding 100% of GDP.

The Fed pivot, as it has been called, has had an effect on yields in western markets, particularly on long duration assets which have performed well in 2019, going against most long-term predictions set in 2018. This has wrong-footed many investors who have held shorter duration assets with the aim of protecting against a rising-rate environment. As noted earlier, the puzzling factor for investors at the moment is that both equities and bonds are performing well. This may be the expectation of central bank easing which in turn stimulates activity through lower borrowing costs within the weakening manufacturing sector.

Corporate debt has performed well with yields falling in line with the broader government bond market, and the additional tightening of spreads has also helped to improve returns. Market technicals also provide a strong underpinning for the entire corporate bond market, with allocations to the asset class remaining at high levels and issuance in both euros and sterling at disappointingly low levels since the start of the year. This highlights the need for investors to be vigilant about what they own as there are issues that face corporate debt holders – firstly, the increasingly crowded position in credit, and secondly concerns about credit market structure and liquidity, which has not been tested since the financial crisis. Lower grade bonds have been in demand for yield purposes and perhaps these assets have reached levels that no longer offer a sufficient premium to more highly-rated bonds for the additional credit risk involved.



## Property

In the UK the same themes tend to dominate the sector, with UK commercial property market returns continuing to be moderate and the ongoing Brexit uncertainty leading many investors to reduce or sell out of their property allocations, which is putting pressure on capital values. A disorderly Brexit may have a particularly negative effect on the London property market and many UK fund managers are reducing or avoiding Central London property, although it has continued to be supported by overseas investors. The area of distribution / logistics / warehousing remains popular due to the demand for last mile delivery, same day delivery, click and collect etc. but this has pushed up purchase prices and driven down yields. Of the three core property sectors, Retail is undergoing the greatest amount of change. Structural shifts in the way we shop are forcing retailers to look at whether

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their stores are fit for purpose and in the right location. Profitability is being squeezed and even well-known brands have started to suffer, resulting in some having to employ Company Voluntary Arrangements to manage their rental commitments. Capital values have fallen in response to rental declines and the impact is being felt across all retail sub-sectors, with the greatest effect on secondary stores in compromised locations. Liquidity levels within commercial property funds remain above average in many cases, which is a longer-term effect of the 2016 EU referendum result and the subsequent investor sentiment towards the asset class. This may continue for some time, particularly with the ongoing Brexit uncertainty and will impact absolute returns – if fund managers can generate any returns in addition to the natural income this will be a very positive outcome.

The global REIT / property securities market is sensitive to interest rate movements and is dominated by US assets within the global REIT space, therefore the path and outlook for US interest rates and US economic growth will be important influences on future returns. Global growth is slowing and the Federal Reserve has paused its interest rate hiking cycle. The fixed income market is now pricing in rate falls for 2019, which would be positive for the property securities market, but there is the possibility of an interest rate surprise, so there remains the potential for a negative knock-on effect to property securities / REITs should markets need to re-price. This is something to watch.





Whilst the second quarter of the year proved more volatile, markets delivered a positive return. After the setback in May markets enjoyed a strong rebound in June, driven both by hopes of a positive outcome for trade relations at the meeting between Donald Trump and Xi Jinping, and by a re-affirmation of the pivot in monetary policy, mainly by the US Federal Reserve, but also to some degree the ECB. As a result, the US market has achieved its best first half year return in more than two decades. The 6.9% rise for the market in June was the best for that month since 1955, leaving the S&P up 17.3% since the start of the year. This is the benchmark's strongest first half year performance since 1997.

During the second quarter further evidence emerged of a slowdown in the global economy with even the most recent data in the States demonstrating a pullback in the economic growth rate. This demonstrates the importance of central bank policy and global monetary conditions on the market cycle. Market optimism that the Fed and other central banks are willing to ease monetary policy aggressively has underpinned equity markets, despite the fact that the second quarter has seen a continuation of negative demand shocks in both advanced and emerging economies.

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Although equity markets have been universally positive there has been more volatility during the quarter, especially in May when investors were spooked by the escalation of trade disputes between the US and China. Inflation has helped, having remained surprisingly quiescent, allowing the Fed to pivot toward a more dovish stance. Given the late stage of the US cycle, this has been a surprise, and suggests that structural factors may be weighing on prices and preventing the normal cyclical pickup. One such factor would be the intense competition in the retail sector as a result of the rise of internet shopping. More generally, geo-political risk, as measured by the GPR index (geopolitical risk index), remains elevated – analysis shows that high levels of the index are associated with weaker economic activity and in the current environment this will weigh on capex.

The US Federal Reserve appears to be acting pre-emptively, motivated to extend the current economic cycle as soft global growth and persistently low inflation risks depress expectations further. The European Central Bank (ECB) is discussing further easing options while the Fed's dovish rotation has permitted a number of emerging market central banks to pursue more accommodative policy. The global economy continues to face a number of challenges, and while services and consumer sensitive sectors have been broadly resilient to the downturn in manufacturing, global trade growth remains depressed, hindering the ability of open economies to accelerate markedly. China is increasingly important in global terms and it can be argued that their transition to a more domestically led economy is one of the reasons for the fall off in global GDP growth. This affects both consumer goods and commodities and has affected economies in a wide number of regions.

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RSMR – April 2019



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